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Division of Powers Between Central, Local Governments

91CM0428A Shanghai FUDAN XUEBAO, SHEHUI KEXUE BAN [FUDAN UNIVERSITY JOURNAL, SOCIAL SCIENCES EDITION] in Chinese No 2, 13 Mar 91 pp 27-36

[Article by Wang Huning (3769 3337 1337): "Balance Between Centralization and Decentralization: Coordination Between the Central and Local Governments"]

[Text] As China goes through the process of modernization, the relationship between the central government and local governments has gradually become of crucial importance. Numerous conflicts and imbalances requiring adjustment have occurred in this relationship that not only adversely affect coordination between the central government and local governments, but also adversely affect development of the whole society. This article analyzes certain recent imbalances in the relationship between the central government and local governments, and it proposes that a balance between centralization and decentralization be the principle for future coordination between the central government and local governments.

I.

The imbalance between the central government and local governments at the present stage stems largely from the economic field, and it is also manifested largely in the economic field. It is expressed in a reduction of central government functions and a widening of local government functions. This dual trend is related to a combination of the guiding thought and actual conditions prevailing since reform.¹ (1) Highly centralized regulation and control methods have changed to decentralized local government regulation and control methods, a substantial number of the regulatory and control functions formerly in the hands of the central government having been delegated to local governments. (2) The central government's exclusively held regulatory and control capabilities have largely flowed to local governments, local government's regulatory and control role expanding spectacularly. (3) There has been a new apportionment of the amounts of social resources on which central government regulation and control capabilities are based. The result of this re-apportionment has been a marked increase in the amount of social resources that local governments possess. (4) The central government has to rely to an increasingly large extent on local government approval for a certain amount of the social resources it has. The former one-way withdrawal of resources cannot be continued. The overall movement in these four regards has diminished the central government's regulation and control capacity both relatively and absolutely. This signifies a decrease in central government regulation and control capabilities, and an increase in local government regulation and control capabilities. The shift to local governments of regulation

and control authority is a tilt, some say, in the direction of local governments of social regulation and control authority.

The decrease in central government regulation and control ability may be seen from the following changes: (1) Financial revenue as a percentage of national income has declined, and central government finances as a percentage of total fiscal income has decline. The amount of the former has continued to decline year by year. It was 37.2 percent in 1978, 28.3 percent in 1980, 25.0 percent in 1986, 21.6 percent in 1987, and 19 percent in 1988, while the amount of the latter was 52 percent in 1985, and 47.2 percent in 1988. Central government financial income increased at an annual 0.15 percent, while local government financial income increased at an annual 17.4 percent.² This has meant a tremendous decrease in the amount of social resources under control of the central government. (2) Both the range and the percentage of command plans have greatly decreased. Products under State Statistical Commission command plan control from 1984 to 1988 fell from 128 to approximately 60, and a marked decline has also occurred in the kinds of products administered by special agencies of the State Council. According to an analysis of statistics from 25 provinces, industrial production command plan output value was only 16.2 percent in 1988. Objectively, this caused a central government loss of a substantial amount of macroeconomic regulation and control capability.³ (3) In the wake of the decline in central government-controlled investment capabilities, central government delegation of decision making authority for investment, and institution of the system of dividing revenues and expenditures between the central and local governments and holding each responsible for balancing its own budget, the central government delegated a substantial portion of its investment authority. Specifically, in 1985, the total investment in fixed assets throughout society in 1985 was 254.318 billion yuan, but investment included in state budget was only 44.883 billion yuan. (4) There was a decrease in the number of enterprises under central government control. Central government controlled industrial enterprises nationwide accounted for approximately 1 percent of the total number. This limited the central government's ability to increase its regulation and control capability. The changes in the above four regards were the most important factors impairing central government regulation and control capabilities. Objectively, they weakened central government regulation and control capabilities, with the result that when the central government felt it necessary to exercise macroeconomic regulation and control, its ability was not equal to the task, and the task was beyond its reach. The tardiness in bringing under control the tumult of various kinds and the disorderliness that has occurred in the economic field during the past two years was attributable to the relative and absolute decline in the central government's regulation and control capability.

Simultaneous with a decline in the central government's regulation and control capabilities was a sudden rise in

local governments' regulation and control capabilities. Some scholars estimate that at least 45 percent of all activity in the national economy is in the local economy.⁴ The expansion of local governments' powers and functions, the increase in their financial resources, the rise in their economic strength, and the increase in their regulation and control authority enabled local governments to become increasingly influential and powerful entities for the regulation of society. As a result of its lack of sufficient regulation and control capabilities, the central government actually has to rely on local regulation and control entities to effect regulation and control.

II.

The expansion of local government regulation and control capabilities was a positive choice made in China's reform. In a "super-large society" such as China's, sole reliance on the central government to bring about social regulation and control is difficult to imagine. It is difficult to realize in terms of total social resources, and it is also difficult to realize technically. In terms of moving ahead with modernization, only by making use of the dynamism of both the central government and local governments is it possible to realize truly effective social regulation and control. The choice of enlarging local government regulation and control capabilities makes sense. The appearance of losses is not at all surprising. The key lies in the need for full examination of all possibilities when making this choice: How great is Chinese society's ability to bear a change in regulation and control methods; how much enlargement of local government authority there should be; and how should constantly occurring imbalances be regulated. In addition, of crucial importance is that once the old system has been changed, what should the overall form of relations between the central government and local governments be? We have not made a sufficiently deep or advanced study of these questions. Admittedly, conflicts, disorderliness, and conflicts will be bound to crop up in the course of carrying out reforms on such a grandiose scale. All reforms or social transformations are a process that proceed from an old balance to destruction of balance, and on to new balance. They are also a process that proceeds from the old orderliness to disorderliness to new orderliness. After having gone through the operation of society in the previous stage in which imbalance was manifest and disorderliness also existed, we are impelled to think further about a new overall model.

To put it bluntly, the imbalance at the present stage in relations between the central government and local governments is basically an imbalance in the integration of regulation and control. This shows up both vertically and laterally. By a vertical imbalance in the integration of regulation and control is meant failure to attain the goals in regulation and control that the central government has set. The overall actions and the local government actions that should be under central government regulation and control are dissociated from central government regulation and control, giving rise to a certain amount of

disorderliness in society as a whole. The most vivid example of this situation is the decline in command plan authority for an ever decreasing fulfillment of plan. During the first half of 1989, for example, the rate of fulfillment of several major material plan quotas continued to fall, 81.6 percent for finished steel products, 87.9 percent for nonferrous metals, and 89.98 percent for coal. In 1988, the situation was even more serious. Some plan quotas such as those for cotton and tobacco were virtually completely unrealized in some places. Various other situations such as inflation in the scale of investment in fixed assets, inflation of consumption funds, a spurt in the purchasing power of social groups, excessive credit, and too rapid development of processing industries all signified a decline in central government regulation and control effectiveness. Responsibility for regulation and control of overall social activities rests with the central government; however, the central government actually lacks sufficient capacity and suitable mechanisms to effect integrated vertical regulation and control. Ultimately, it can only resort to administrative or political measures to force intervention. It is faced with two difficult choices. One is not to interfere, which may lead to more profound turmoil in society as a whole making new balance impossible. The other is forcible interference, which may clash with the process of conforming to society's operating laws, thereby delaying new balance. Between the two, it is better to delay the process of formation of a new balance rather than cause the possibility of a new balance to disappear because of social upheaval, thus maintaining the possibility. Of course, ideally society should not be allowed to arrive at this pass.

The loss of balance in integrated lateral regulation and control shows up prominently, and it has recently become a hot topic of conversation. The extreme term "princely economy" has been used to depict this situation in a graphic way. Local protectionism, regions closing off markets to each other, and the carving up of markets all contribute to this state of affairs in different ways. Loss of balance in the integration of lateral regulation and control is an outgrowth of loss of control in the integration of vertical regulation and control. The central government is unable to regulate and control effectively the actions of all local government entities at each step of the way, so each local government has leeway and space for going its own individual way. To a very large extent, the loss of balance laterally is structural. It is a by-product of local governments being the principal regulation and control entities. This is because the traditional system emphasizes the vertical structure, i.e., regulation and control relationships between the central government and local governments instead of attaching importance to the horizontal structure between one locale and another. This means a high degree of centralization of power in the central government. Once the bonds of the vertical structure are loosened, naturally there is no system-imposed operating order. Given the intensity of local interests, the appearance of parochialism is a natural follow-on. Parochialism may be said to

be the crux of the imbalance in relations between the central government and local governments, and restoring balance has to begin from this. Parochialism is manifested primarily in the following ways: (1) Use of administrative methods to interfere with enterprises' decision-making authority for production and administration, which puts obstacles in the way of enterprises in a local area in selecting the commodities they need from anywhere in the country. It rigidly requires that they may only buy or sell, or rigidly tie in with local products. (2) Unauthorized establishment of checkpoints on highways, at railroad stations and wharves, and at boundaries between provinces that impede the normal delivery of commodities, preventing the sale of products from elsewhere in the local area. (3) Unauthorized increases in taxes, use of variable tax rates, and the formulation of regulations of a punishing nature to close off markets for products from outside the local area or against enterprises that deal in or use such products; taking away enterprises' legal earnings; and exceeding authority in giving tax reductions or exemptions to enterprises that deal in local products. (4) Failure to treat equally and without discrimination enterprises that deal in products from outside the area and enterprises that deal in local products in the provision of loans, either limiting loan funds to enterprises that deal in products from elsewhere, or increasing loan interest rates. (5) Purposely holding down or unauthorizedly jacking up the sale price differential and the wholesale and retail price differential on products of the same kind from elsewhere, etc. As a result of these methods and local policies, the blockading of markets among some areas has become quite serious. After allowing for similar situations resulting from other reasons (such as bribery, transportation, and prices), the blockading of markets caused by local regulation and control policies has seriously interfered with the normal socio-economic flow to the detriment of the speed and healthy development of modernization. This led to the State Council's issuance on 10 November 1990 of "Communique on Demolishing Inter-Area Market Barriers."⁵ The loss of balance in the integration of lateral regulation and control can intensify the loss of balance in the integration of vertical regulation and control, because the conflicts and the clashes in lateral regulation and control are becoming increasingly great, and the depth and effectiveness of vertical regulation and control is becoming ever lower, the one being in direct proportion to the other. One might say that the currently existing vertical imbalance stems primarily from the lateral imbalance.

A problem meriting attention exists here, namely that relations between the central government and local governments are not only affected by vertical factors, but also by lateral factors. Problems must be considered from both these aspects in the future coordination of relationships.

III.

The imbalance in these two aspects has led to a series of negative effects, most of them in the economic realm, but not only in the economic realm. Let us first consider the problem in economic terms. It is generally maintained that local protectionism creates the following

situations: (1) Protection of antiquated local enterprises, antiquated local enterprises frequently being the recipients of preferential treatment in the form of fiscal subsidies and tax reduction or exemption. This puts key enterprises in the country in an unfair competitive position. (2) It leads to the inflation of investment. Local governments can use various methods to protect local investment projects, with the result that extrabudgetary funds become more difficult to regulate and control making it difficult to hold down the scale of investment. (3) It makes for an inequitable industrial structure, each jurisdiction running its own supporting projects, and trying to be all inclusive though small in size, thereby creating great shortages of raw materials, energy, and transportation, and duplicating imports. (4) It loses economic returns. Small enterprises emerge in an endless stream. Their technological level is low, the size of their returns is low, and they take away raw and processed materials from other enterprises with the result that modern enterprises that have strong capabilities and produce high returns do not have the wherewithal to produce. (5) It creates a carving up of regional markets, obstructing the rational flow of various kinds of the elements of production and products. (6) Product quality declines tremendously. Because of the existence of protectionism, all sorts of shoddy products flood the market while premium quality products are excluded, thereby damaging society. (7) The integrity and the effectiveness of national macroeconomic policies is damaged. Acting out of local interests, local governments frequently either thwart or implement only perfunctorily central government policy regulation and control. The result is fictitious central government regulation and control. Regulation and control exists in form, but it is not effective in fact: it is "empty regulation." This results nationwide in central government regulation without control, which makes difficult the timely and effective direction of the overall way in which society develops. That exerts a negative effect in the economic realm and the adverse effect on China's economic development and modernization goes without saying.

One matter that merits deep thought is that the negative effect has not only economic but also political significance. The logical relationship is extremely clear, namely that the traditional system is a system in which the political and the economic are highly unified. Politics and economic are part of a piece. Although reform has decreased the degree to which politics and economics are part of a totality, politics and economics remain organically fused. The impediments to economic functions are inevitably impediments to political functions. Even should a fairly ideal model be attained in the future, this correlation will continue to exist. Engels long ago made a profound judgment about the correlation between political power and economic activity as follows: "The counteraction of national power on economic development may be of three kinds: It may play a role in a single direction, in which case it may develop fairly rapidly; it may play a role in an opposite direction; or it may move in certain directions that impede economic development

and give impetus to its movement in yet another direction. In the final analysis, the third circumstance is a form of the first two. However, under the second and the third circumstances, political power can inflict enormous damage on economic development and gives rise to a huge waste of manpower and material resources.⁷ If "national power" is changed into "local government power," within a certain context, this passage may be regarded as a penetrating analysis of some situations currently existing in China. The difference is that what Engels portrayed was comprehensive authority, while we are analyzing partial authority. However, the regulation and control capabilities and the range of jurisdiction over matters that Chinese local governments require are no less than those of the nations of Europe. China has 18 provinces having a population of more than 30 million, and nine with a population of more than 50 million. Sichuan has a population of 100 million.⁸ China's society is super large, and local governments are super large. This super largeness is itself a reason for the imbalance in relations between the central government and local governments. Local governments regularly interpose themselves into various types of local economic activities. One might say that without political and administrative intervention there would be no carving up of markets among regions or local protection. Some economists maintain that a basic pattern exists in China today of the co-existence of "administrative monopoly markets and nonstandardized competition markets," which is defined as "the state (the government) continuing to maintain its status as the main player and playing a decisive role, an administrative monopoly still playing the main role."⁹ In fact, local market blockading is a kind of "local administrative monopolistic market." Formerly it was a state administrative monopolistic market over which the central government exercised unified regulation and control. Today, this market character has not changed; however, the main entity in regulation and control is now the local government, and the subject of regulation and control is the market size apportioned through administrative zoning. A corollary to this relationship is that the noneconomic significance of the aforesaid conduct may be very conspicuous. Try to imagine, if the local government in a society applies its economic power to protect local interests, how can the integration of society's vertical and lateral regulation and control operate.

Looked at from the political angle, the negative effect of local protectionism must arouse apprehensions. The negative effect mostly involves implementation of government decrees, and political conformity. In the implementation of government decrees, local protection hampers implementation of policies. Some central government policies in response to overall development needs cannot be carried out; compliance with some is feigned; some are turned aside gently; and some are violated outright. Such a situation exists at the provincial level. An example occurred in 1989 when, in order to solve the silkworm cocoon procurement price problem between Zhejiang and Jiangsu provinces in order to

prevent a "silkworm cocoon war," the State Council summoned personnel concerned from both provinces to go to Beijing to mediate and to work out pertinent regulations. It was explicitly agreed that "for important agricultural products such as silkworm cocoons, each party positively could not go its own way, much less would it be permitted to resort to acting first and reporting later in violation of government regulations." Nevertheless, some provinces acted unauthorizably in violation of the State Council regulation.¹⁰ Such a situation also exists among governments at lower levels within the province. For example, in order to prevent a "tobacco war" Hunan Province dealt seriously with violations of regulations by Xuchang County, Weishi County, and Xinzheng County. These counties had unauthorizably procured tobacco from elsewhere, hiked prices, and lowered procurement grade standards in violation of procurement contracts.¹¹ During the past two years, such situations have arisen one after another. Aside from their bad effect on the economy, their political effect also merits attention. Difficulties in carrying out government decrees are bad for any society, and for a society undergoing a rapid modernization, they are even worse.

Looked at from the political conformity angle, the non-system expansion of local government regulation and control capabilities has increased, meaning the expansion has not take place under centralized regulation and control. As a result, gaps have occurred between one region after another. The mutual blockading of markets among regions artificially cuts off organic economic links between one region and another, and indirectly severs inter-regional organic links in administrative, policy, legal, procedural, and functional regards. It abets a regional interests mentality, psychological make-up, and group organization. For a society like China's in which lateral organization is not all that well developed to begin with, this means disadvantages with no advantages. Further development of this trend can lead to a kind of "prototype." If every local government pursues its own independent interests, then the implications for political coherence for the whole society go without saying.

Therefore, when thinking about balance in the relationship between the central government and local governments, not only is it necessary to think in terms of economics, but in terms of politics as well. Political results are an outgrowth of economic activity. They run fairly deep, are latent, indirect, and enduring. However, in terms of advancing the modernization of a society, and in terms of maintaining social stability and political unity in the modernization process, logical political considerations take precedence over economic considerations even though, in fact, the later take precedence over the former.

IV.

Looked at in terms of their trend of development, super large societies are destined to take the road of delegation

of authority, and to take decentralized style, withholding of resources - demand satisfaction road. However, until such time as all conditions are in perfect readiness, an overly fast or overly rapid leap into this process, or ill-advised involvement in this process may result in "the more hurry the less speed." Before analyzing the new balance, examination of the reasons giving rise to the aforementioned dual trend is in order.

The fundamental reasons may be capsulized as follows:

1. After entering the process of modernization, the demands and expectation created and posed in every aspect of society greatly exceed the portion of social resources that the centralized regulation and control system possesses, which is to say they exceed the limits of the portion of resources that the central government withholds. The centralized regulation and control system is unable to provide the amount of resources needed for all sectors of society to develop. It is necessary to engage the dynamic role and creativity of local principal regulation and control entities. Local government regulation and control entities themselves must amass the resources needed to meet local requirements. The following is an objective force: A modern full call to action leading to complete growth of social demand and expectations, leading in turn to centralized regulation and control centers requiring that principal local government entities take part in amassing social resources. Mobilizing local government principal regulation and control entities must be subject to required limits, apportioning specific areas of activity, and providing necessary authority to make free decisions. This is the first thrust in the delegation of authority following reform.

2. Unitary regulation and control centers are unable to coordinate fully the ever-more numerous and endlessly appearing social matters. Under the traditional system, the regulation and control centers were under the central government, and were unitary. Inasmuch as economic development was not the main task of the regulation and control centers, political tasks dominating everything, the matters for which the regulation and control centers were responsible were fairly undiversified. After modern arousal to action, however, long, insoluble conflicts came to the fore, and the new requirements that social development pose came swarming forward. The super largeness of China's society decreed that requirements for modernization would also be super large. Undiversified regulation and control centers are not up to the task of coordination. For example, in designing an airfield, provision is made for a certain number of aircraft to take off and land. Supposing that the number of flights provided for is 1,000, or one flight every 1.4 minutes, should there be 5,000 take-offs and landings, the airport control center will be unable to deal with them. The same is true for social regulation and control. When social affairs and requirements increase tremendously, the role of the main local government regulation and control entities has to be bolstered. This requires an expansion

of the local government regulation and control capabilities. This is a prerequisite for the delegation of authority, and is the second thrust in the delegation of authority.

3. After initiating modernization, local government regulation and control responsibilities become increasingly heavy, and the needs of society increase with each passing day. Simultaneous with the initiation of modernization is the initiation of demand on a greater scale from which local governments face unprecedented pressures. Following central government delegation of authority, local governments become principal entities for satisfying interests. This means two emphases in development: the first is the localization of interests, and the second is the diversification of interests. Following the localization of interests, local government must control more social resources in order to expand their regulation and control capacity; otherwise, they will be unable to fulfill their transformed regulation and control function. The local government sense of its interests is continuously enhanced in this process. Driven by objective pressures, main local government regulation and control entities' sense of their own position is gradually established. This is the first pulling force that local governments require to expand their own powers and functions.

4. The readjustment of the prevailing system, which lacked adaptability following the delegation of authority, was for the purpose of controlling imbalances that might occur following the delegation of authority. Under the traditional system, centripetal force was fostered through central government regulation and control, and centrifugal force was restrained through central government regulation and control. However, following the re-apportionment of functions between the central government and local governments, the fostering of centripetal force and the restraint on centrifugal no longer had any backing; instead, the continued existence of certain elements in the traditional system served as a catalyst for centrifugal tendencies. Examples were data for evaluating local government regulators and controllers submission of figures to the central government Ministry of Finance, regulators' and controllers' actual career achievements, and the degree of resolution of local conflicts, all of which psychologically abet the local government's inclination to expand its own capabilities. The central government's restraint is powerless by comparison inasmuch as the central government also has to rely on local governments to effect social regulation and control and the collection of resources. Furthermore, the appointment and evaluation of regulators and controllers is, organizationally, within the purview of local government legislative organs, and local government legislative organs judge career achievements largely in terms of local interests, so this also becomes an element that intensifies local orientation. Actions of all kinds in the local interest can help advance each jurisdiction, but they can also lead to each becoming a law unto itself with the result that each jurisdiction's main regulation and

control entity has a certain linkage with the central government; however, there is mutual competition among regulation and control entities in each jurisdiction, and even latent rejection of them. The central government cannot regulate and control local entities in a unified way; it can only regulate and control them individually, so this impairs the integration of macroregulation and control. These factors impel local regulation and control entities to ask the central government for expanded powers, which is the second pulling force.

The two main thrusts impel a downward shift of central government regulation and control functions to local governments, and the two main pulling forces draw central government regulation and control functions in the direction of local governments. Since the forces operate in two different direction, one pushing from top to bottom (and the other pulling from bottom to top), plus the lack of an appropriate "limit" and an effective control mechanism, the aforestated imbalance is difficult to avoid. Everything from the delegation of authority, the narrowing of the central government's scope of regulation and control, and changing the regulatory system to enterprise contracting, government financial contracting, and foreign trade contracting is manifested in a process whereby the central government takes the initiative in delegating authority to local governments, taking the initiative in wanting authority. This change contains a social significance that cannot be underestimated, which will not be gone into here. The above four kinds of forces do exist objectively, and the effect on relations between the central government and local governments of the various subjective factors they generate cannot be underestimated. Since they do exist objectively, in considering balance between the central government and local government regulation and control capabilities at the present stage, they must be included and serve as a base point.

V.

So far this analysis has not found the source of imbalance in relations between the central government and local governments; however, the aforementioned four forces are factors stemming from the source. In terms of the present stage of development, this source is a conflict between the total amount of social resources and the dramatically increasing total amount of social demand in the modernization process. By total amount of social resources is meant the sum of the level of human conquest of nature and the level of human creative capacity, including both material and nonmaterial factors.¹² Under the traditional system, the central government was responsible for withdrawing social resources, after which it concentrated them for redistribution. Under the new system, the central government is more inclined to rely on local governments to relieve pressures, while at the same time, it apportions to local governments a portion of both social demand and total resources. However, the situation that local governments face is as follows: The social resources withheld are far from being able to satisfy social demand, which has

increased many times over. Thus, it turns even more to the central government to ask for greater authority, or it acts on its own to enlarge its authority. Such interaction ultimately leads to imbalances in two regards. Here it is just as well to look at this conflict and the consequences of people's initial methods for dealing with this conflict:

1. The Appearance of "Blank Spots" in the Regulation and Control System. In order to solve this conflict, people have adopted reform of the system, i.e., they have changed the highly centralized power system, instituting the delegation of authority. They have made a transition from centralized withdrawals for redistribution to decentralized withdrawals for redistribution. The change to this system brought about problems of overlapping between the old and the new system, and the possibility of "blank spots" occurring in the system, such as the old system having changed, but no new system having been created, or a new system having been created in theory, but being unable to effect complete regulation and control in fact. The thinking used in designing the overlapping new and old systems was that the central government would no longer use either direct regulation and control or microregulation and control. Instead it would use indirect regulation and control and macroregulation and control in the regulation and control of local governments and entrepreneurial entities. In fact, however, once the existing regulation and control system was abolished, the new regulation and control system could not become effective at once, nor were people adjusted to the new regulation and control system. Indirect regulation and control and macroregulation and control means abandonment of specific regulation and control measures and regulation and control authority, relying instead on the strength of the system and standards. However, the standards required in the new system were now systematically created; thus blank spots leading to imbalance might still occur in the central government regulation and control system

2. Slackening of Regulation and Control Mechanism. The former regulation and control was founded on a mechanism whereby the central government withheld resources for redistribution, the central government controlling the resources. The mechanism was substantive, and regulation and control was strict. The inherently related entities in the new system are no longer substantive, but they are functional, which it to say that the new system is founded on policies, laws and decrees, and norms. This change has resulted in a slackening of the regulation and control mechanism. No sound mechanism exists for regulation and control, nor is there any ripe experience. For the parties being regulated and controlled, there are neither needed restraints nor conscious habits. Consequently, much regulation and control has no effect. This situation occurs not only between the central government and local governments (provinces and municipalities), but also occurs among local governments at all levels, such as between one province and another, one region and another, between a county and a township, and even between a township and the grassroots. Rural "village obstruction" has become a worrisome problem.¹³ Under the old system, the material regulation and control method was from above, by

which is meant vertically in contrast to local regulation and control, which is lateral. Following reform of control from above, vertical regulation and control methods were greatly weakened, while lateral control was strengthened in actual operation. Large and small lateral control organizations proliferated, and this too caused a slackening of the regulation and control mechanism.

3. Regulation and Control Norms Not Uniform. After the changes in the regulation and control system and the regulation and control mechanism, an attendant norm system appeared increasingly important. Following the system change, no longer could the central government carry out regulation and control using the former methods; consequently, a complete system of norms had to be formulated in order to regulate individual regulation and control actions. Actually, such a norm system is still in process of being built. Completing it requires a substantial amount of time. There is currently no clear demarcation line between what may and may not be regulated and controlled. Each jurisdiction has itself developed the direction of its regulation and control actions. The effect of this situation in which multiple principal entities are each a law unto themselves has been disorderliness to a greater or lesser degree.

4. Lax Regulation and Control Functions. As a result of the effect of the various foregoing reasons, particularly following the loss of control over resources, the regulation and control function of both the central government and local governments appeared powerless in many regards. System, mechanism, and norm restraints made it difficult for governments at both levels to exercise completely effective regulation and control. Sometimes the central government was unable to direct and restrain some local government activities, and local governments were sometimes unable to direct and restrain some of the activities at a lower level. These complicated regulation and control stairs amounted to a system. If local government regulation and control entities are unable to control their own underlings, that means that not only does local government regulation and control sometimes fail, but it also means that central government regulation and controls also fails. If the central government is hard put to regulate and control local governments, that means not only weakness in its ability to regulate and control local governments but also weakness in the regulation and control of society as a whole. All the disorderliness that occurred during the previous stage was related to the weakness of these interlocking regulation and control functions. Of course, numerous reasons requiring careful analysis account for the weakness in regulation and control functions.

The foregoing reasons occurred when the total amount of social resources were greater than the total amount of social demand. Some of them were fairly direct; others were fairly indirect. These factors can be detected in quite a few situations such as the October 1990 incident in Yantai City when the oil tanker Haoke Hero belatedly discharged its cargo.¹⁴ The crux of the conflict was ownership of the resources, but coordination among all

parties concerned proved ineffective, they vividly demonstrating problems with the system, the mechanism, norms, and functions. As far as we are concerned, understanding the relationships among the foregoing several strata is not the same thing as saying that a solution can be found at once. The value of understanding this problem lies in learning what premises should be used in thinking about problems, and what problems are beyond a certain purview and cannot be solved now.

VI.

Since the root cause of imbalance is the conflict between limited total amount of social resources and dramatically increased social demand, achieving balance requires relying on an equitable apportionment of the limited total amounts of social resources. Comparative study demonstrates that the total amount of resources in a given society is always lower than total social demand. Even in highly developed industrial countries, this is also the case. However, when the difference between the total amount of social resources and total social demand is fairly small, central and local government regulation and control capabilities can effect a balance fairly easily. Conversely, it will be very difficult to do so. This seemingly bears little relationship to whether a system is a unitary system or a federation system. In form, both the United States and the Soviet Union have a federation system; however, in ability to achieve balance between central government and local government regulation and control, the United States seems to move along smoothly while the Soviet Union seems to have one difficulty after another. In essence, the Soviet Union has always made centralized withdrawals for redistribution, but it has not solved imbalance in this regard. India also has a federation system, but it also encounters one difficulty after another in effecting balance in its regulation and control capacity. Thus one can say that a system has a definite role, but it cannot be exaggerated. The most decisive element is not the level of social development or the level of development of material production. Take China, for example, where the insufficiency of total social resources will be long term. Modernization and the increase in productivity will spur sustained rise in the total amounts available; however, relative to the sustained or manifold increase in total social demand, there will always be a shortfall. This conflict cannot be eliminated within a short period of time; thus, the choice that has to be made is to promote balance to the greatest extent through equitable apportionment of the total amount of social resources available, while simultaneously spurring to the greatest extent an increase in the total amount of social resources. In overall terms, the following 10 realizations are very important for the equitable apportionment of social resources:

The first realization is the need for an equitable apportionment of the total amount of resources currently available, which is to say dividing them up. In common parlance, the problem is how to cut up a cake that cannot

be made infinitely large. Since there is no way to improve the total amount of resources available, the standard used in making a judgment cannot be the extent to which resources satisfy demand. Instead, it can only be whether the redistribution of resources has an adverse effect on the central government's integrated regulation and control of all society, i.e., macroeconomic regulation and control; and whether it has an adverse effect on the central government's overall ability to spur the modernization of society. The up-and-coming modernization requires that society concentrate its main resources sparing no effort, and concentrate on moving ahead, but numerous and diverse social undertakings require a dispersal of resources causing a general slowdown. This problem will trouble China for a long time to come, so rational choices will have to be made. Thus, some people suggest increasing government revenues as a percentage of national income from the present 18 percent to around 30 percent, and increasing state revenues as a percentage of total fiscal revenue from the present 47.2 percent to around 55 percent.¹⁵ Perhaps, there are both real reasons and ideal reasons for such percentages. Actually, the ratio is by no means high. For example, in Japan, the division of tax revenues between the central government and local governments is 75 percent for the national government and 30 percent for local governments, the distribution of resources to the central government being far higher than to local governments. The key is in how it is done. In Japan, after distribution in which "tax concessions are made to local governments," the money that the central government and local governments control is actually "half and half" each getting 50 percent.¹⁶ This both helps the central government effect regulation and control, and it also helps local governments. Therefore, China should likewise increase to a certain level the portion of total social resources that the central government withholds to help the central government effect macroeconomic regulation and control, concentrate limited resources on spurring modernization, even out regional differences, and build social support systems.

The second realization is that after increasing the percentage, the social resources that the central government controls must have a legally set framework for equitable apportionment. The key here lies not in who controls the resources, but in how the resources are used to satisfy social demand. After an increase in the portion that the central government controls, in addition to what the central government must spend to maintain the national economy and the people's livelihood, and for modernization, such as on national defense, for foreign relations, administration, agriculture, energy, raw and processed materials, education, transportation, and key projects, it also has to apportion a commensurate portion to support local government regulation and control entities in easing demand pressures, designating pertinent projects for central government financial payment. In form, this amounts to transferring local undertakings and resources back into the hands of the central government. Actually, however, it both helps central government integrate

regulation and control and also can imperceptibly influence the enhancement of social conciliation. Total financial revenues should be split "fifty-fifty." During the period when resources are fairly scarce, there should be a gradual transition in the direction of "fifty-fifty." This can be brought about through the central government making concessions to local governments. Some comparisons are in order. The United States has a federation form of government in which the individual states enjoy substantial authority. After World War II, however, the proportion of federal government revenues rose markedly as a percentage of all government financial income. In 1902, the federal government got 38 percent of the revenue, the states 12 percent, and local governments got 51 percent [sic. the total comes to 101 percent]; in 1968, the federal government got 62 percent, the states 26 percent, and local governments 12 percent.¹⁷ The percentages varied greatly. This was related to a great increase in the total amount of social resources available in the United States. During this period, the federal government's subsidy system also developed. In 1968, the federal government had approximately 70 subsidy plan projects. During the Nixon and Ford administrations, another approximately 100 new plans were added. Federal government subsidies include public housing, highways and bridges, employment insurance, social security, natural resources protection, unemployment compensation, old age assistance, blind assistance, assistance to the handicapped and to children, medical treatment and health, and rural community development. The relative percentage of federal assistance is not low. As of the end of 1970, federal government subsidies totaled more than \$70 billion while federal income in 1970 was more than \$460 billion. In 1988, federal assistance to local governments amounted to \$116.6 billion while federal income was more than \$900 billion. Federal assistance carries strict legal restrictions such as requiring states that accept assistance to put up counterpart funds, fiscal audits, approval procedures, inspection procedures, and cancellation rights. There is also lump sum assistance, group assistance, and income sharing. The issue is that through these systems the federal government effectively carries out integrated regulation and control of the states and local governments. So-called "cooperative federalism" means the power effect that such withdrawal and redistribution of resources engenders.¹⁸ In view of the limitations of resources, such assistance plans cannot be very widely practiced in China. Moreover, whenever there is a legally established process requiring no arbitrary increase or decrease in overall rights and interests and local rights and interests, this helps the integration of social regulation and control. If there is no withdrawal and no distribution, central government regulation and control is impossible. If there is only withdrawal without distribution, central government regulation can likewise not be realized. If there is no withdrawal but only distribution, central government regulation and control cannot even be considered.

The third realization is that both central and local government regulation and control requires separate

"blood-making functions." Generally speaking, expansion of the total amount of social resources means steadily expansion of the "blood-making function" of the national economy. The greater the output of the national economy's "blood making function," the greater the total amount of social resources available. The emphasis in the withdrawal and distribution of social resources should not be on output but on the blood making function. In present distribution methods, the emphasis is on distribution output, but there is no rational separation of blood-making functions. If there is a separation of blood-making functions between the central government and local governments, both parties are able to take the initiative. It is usually fairly difficult for both parties individually to expand the capacity of the blood-making functions under their own control, individually attaining increased social resources rather than waiting to redistribute them after they have been produced. In solving this problem, the tax apportionment system is a commonly used choice. The United States Federal Government's annual receipts come from the income taxes, corporation taxes, social security, and customs duties. State governments depend on a certain percentage of income taxes, sales taxes, and excise taxes. Local governments depend on real estate taxes.¹⁹ Each has its own "blood-making functions." Subsequently, the federal government effects macroeconomic regulation and control. Balance in China's future distribution of social resources will depend on a division of "blood-making functions." The tax sharing system can systematize these division systems and make them operational. Once a pattern of "blood-making functions" is set, both the central government and local governments must take corresponding actions to expand the "blood-making functions" as a means of increasing the total amount of social resources. Under present circumstances, too great a tilt toward the central government in the distribution of "blood-making functions" is no longer realistic, then this will mean that the regulation and control functions that local governments already bear will be more difficult to carry out. In other words, a regression to the traditional system is inappropriate.²⁰ A possible choice is the gradual definition of a rational pattern for "blood-making functions," or alternatively for the central government to use its relatively superior social resources to spur an expansion of its own "blood-making functions," while simultaneously helping local governments expand their own "blood-making functions."

In putting the above three points into operation, the formulation of specific principles and steps is still necessary, and it is also necessary to plan the dovetailing and fashioning of all components.

VII.

A fairly sensible way in which to shape a coordinated relationship between the central governments and local governments is as follows: Designation of a portion of the social resources that the central government itself collects to provide financial assistance to local government regulation and control entities, local governments

actively expanding within their own purview the amount of resources they hold at the same time. A single demarcation line should best be drawn: Local government expansion of capabilities should not be at the expense of the central government portion, but rather should come out of its own funds. Since the total amount of available social resources is limited, the portion of resources for local governments will have to grow through a gradual process. They cannot become ample all at once. China is a super large society in which the increase in the capabilities of local government regulation and control entities holds extremely important significance. Within a definite division of powers, a unitary regulation and control center can hardly deal with such an enormous amount of regulation and control and social undertakings and ultimately macroregulation and control will also become impossible. The regulation and control functions that China's local government entities perform are fairly strenuous. China's population totals 1.1 billion, but second-level regulation and control entities [provinces, autonomous regions, and municipalities] number 30, meaning a population of more than 360 million per regulation and control entity. The United States, with a population of 240 million, has 50 second-level regulation and control entities (states), or nearly 48 million people per regulation and control entity. The Soviet Union, with a population totaling 280 million, has 15 second-level regulation and control entities (union republics), or nearly 18.6 million people per regulation and control entity. India, with a population of 830 million, has 25 second-level regulation and control entities (states), or nearly 33 million people per regulation and control entity. China's per regulation and control entity burden is 7.5 times again that of the United States, and two times again that of the Soviet Union. China's largest second level regulation and control entity is Sichuan Province with a population of more than 100 million. Its smallest is Tibet, with a population of slightly more than 2 million. The United States' largest is California, with a population of more than 28 million, and its smallest is Wyoming with a population of 470,000. However, secondary regulation and control entities in China have a population of more than 20 million number 11. Clearly the regulation and control burdens of China's secondary regulation and control entities are extremely heavy. Lacking proper resources, regulation and control is impossible.

In terms of amounts of social resources held, the amounts that China's secondary regulation and control units hold are far from able to meet the dramatically increased total social demand. In 1988, California's fiscal revenues amounted to \$70.30 billion. For the smallest state, the amount was \$1.2 billion. Annual average fiscal revenue for secondary regulation and control entities in the United States is approximately \$10.3 billion. For China's largest province, Sichuan, fiscal revenue in 1988 was 8.7 billion renminbi, and expenditures were 9.985 billion renminbi. The number of secondary regulation and control entities in China

having fiscal expenditures of more than 10 billion renminbi were very few. These figures show that the development of modernization requires that local government regulation and control entities constantly and as rapidly as possible increase their regulation and control capabilities. This is the only way that local government regulation and control entities can meet the needs of the development of modernization in China to become a foundation on which central government macroregulation and control can rely.

Thus, the fourth realization is that the limits of central government and local government regulation and control have to be reasonably defined, and active efforts made to foster local government's ability to increase their ability to expand their own capabilities. With local government interest in regulation and control, the difficult problem of administration limits can be solved. When local governments are able to multiply the portion of available resources, this will ease the resources limits problem. In the process of delegating authority, attention must be given to a balance between centralization and decentralization. The decentralization of authority must not make central government macroregulation and control impossible, and centralization must not excessively weaken local governments' regulation and control capabilities. In actual operation, the problems are extremely complex. In short, central government regulation and control should enable local government regulation and control entities to shape conditionally mechanisms for steady proliferation of self-capabilities. This should be the principle for dividing up authority and responsibility. If only the purview of responsibilities and not the purview of increase in capabilities is divided up, local government regulation and control will be difficult or impossible to realize, and central government regulation and control will also be indirectly impaired.

The fifth realization is that local regulation and control entities can dip downward to withdraw resources, thereby creating conditions for multiplying their own capabilities, and changing the aforementioned methods in which the fulling forces are primary. Naturally, this requires gaining the support of central government regulation and control. The current imbalance between central government and local government regulation and control capabilities is due primarily to conflicts about the distribution of social resources that have already been retained. This portion of social resources, in addition to the annual increase, is fixed and limited. How to distribute these resources may vary. Actually, local government regulation and control entities have built-in conditions for dipping down to withdraw more resources. A peculiar situation exists at the present time, namely that regulation and control entities further down the line (districts, counties, townships, and even villages around large cities) have rather plentiful resources. Because of the inability of local government regulation and control agencies to control effectively all the units under their jurisdiction, a substantial amount of the social resources that public facilities generate are not

subject to withholdings. They are not translated into regulation and control capacity, and they not contribute to public objectives. Large numbers of township and town enterprises, individual households, and other economic entities have not been made a part of the social resources allocation mechanism. Some scholars estimate that Shanghai currently has 160,000 individual households (license holders), and 100,000 undocumented stall vendors who, if they make an annual profit of 20,000 yuan, produce a total of 5 billion yuan. The profits of township and town enterprises are even higher. However, the process whereby this portion of economic activity is translated into withholdings of social resources is very incomplete. Local government regulation and control entities should be able to enhance control through policies and regulations to increase the portion of withholdings. This is just one thing that can be done. Local government regulation and control dipping downwards encompasses many other things such as improving enterprise returns, increasing taxes and government revenues, and expanding local governments' "blood-making functions," etc. In analyzing the reasons why China lost a fine opportunity for modernization during the 19th century, an American scholar named Jierbo Luosiman [phonetic—no further information] said that one of the reasons was that it "lost the opportunity to extend government authority and to expand its functions, and it lost the opportunity to amass resources from decentralized and regionalized consumption."²² We must draw lessons from what has gone before. Given the limitations of China's super large society, this function must be fulfilled by the local government regulation and control entities, the central government effecting macrocontrol. This can directly enlarge local governments' regulation and control capabilities, and indirectly enlarge central government regulation and control capabilities.

VIII.

The foregoing five realizations can create the basic conditions for balancing regulation and control at both the central government and the local government levels. The traditional materials support has changed, and the new regulation methods and the material support required have not yet been perfected, or have not yet been created. This is disadvantageous to the effective regulation and control of all society. New conditions must be created for the integration of vertical regulation and control, and the integration of lateral regulation and control, and the old conditions have to be put in proper order. This is the only way that a coordinated relationship between the central government and local governments can be formed.

The sixth realization is the establishment of an effective mechanism for the integration of vertical regulation and control. The reforms of the previous stage, which basically altered the central government to the impairment of the pervasiveness of social regulation and control, may have been overdone. Nevertheless, a return to the old model will not do either. Therefore a new design and new ideas are needed. On the one hand, those matters about which too much authority has been delegated have

to be readjusted. This includes matters such as the already implemented ceiling price for means of production, and centralized control of coal. On the other hand, in view of the trend toward enlargement of local government regulation and control capabilities, central government regulation and control should emphasize two series of vertical mechanisms in order to insure a high degree of integration of vertical regulation and control. The first series is political and administrative, including politics, administration, rules and regulations, the judicature, public security, procuratorial work, auditing, and supervision. The second series is management and functions such as finance and banking, government finance, resources, energy, foreign exchange, foreign trade, tax collection, planning, and prices. In the formation of a coordinated relationship between the central government and local governments. Increasing the pervasiveness of these mechanisms is indispensable. By so-called pervasiveness is meant that these mechanisms play an effective role from the highest levels of regulation and control to the grassroots level in society, and for all society. Logically, vertical regulation and control regards a social system as a structure having multiple levels in a single unit. In this structure, the pervasiveness mechanism constitutes the solid beams of the social edifice. Without these beams, the multiple stories of the social edifice will come apart, and the regulation and control mechanism may fail.

The seventh realization is the building of an effective mechanism for the integration of lateral regulation and control. The integration of lateral regulation and control can be advanced by several factors such as a suitable regulation and control system, and standards for regulation and control, which have to do with the system. A proper market system, finance and banking system, and administrative system have to do with functioning of the system. Proper transportation and communications methods, and public broadcasting have to do with materials. The integration of lateral regulation and control in China easily gets out of balance because the foregoing several conditions are not all that well developed. For a certain period of time, vertical regulation and control did not exist while lateral regulation and control proliferated. The scramble for social resources led to the imbalance in integration and control in this direction. The more the expansion of the state's share, the greater the difficulty in balancing the integration of lateral regulation and control. This was a general rule. The enormous differences between one region and another, the tuning of the system, the lack of standards, and the limitations of the mechanism all required the expenditure of effort to foster conditions for integrated lateral regulation and control. In the process of modernizing, the former administrative methods cannot be completely relied on alone; instead, it is necessary to lubricate new mechanisms (the finance and banking system, commodity flow, enterprise groups, economic partnerships, market connections, communications networks, and transportation channels, etc.), spurring every jurisdiction to use the new mechanism as a basis for shaping a

closely linked totality. Of particular note is that the development of transportation (highways, railroads, waterways, and air routes) holds importance for a society's integration of vertical and lateral regulation and control. Their effect is latent. Logically speaking, social control is vertical going from top to bottom; but practically speaking, it is frequently lateral because social life is conducted laterally over a geographic area. In order for central government regulation and control and local government regulation and control to function effectively everywhere, not only is pervasiveness needed, but reasonableness is needed as well. Only when each of the above mechanisms can truly link all society laterally into an organic whole can the integration of social regulation and control be realized. The lateral mechanism has to be perfectly lined up "reinforcing bars" in the social edifice that are interwoven with the vertical "beams" to assure highly integrated social regulation and control.

The fostering and growth of these two mechanisms cannot be done overnight; however, if approached in a systematic and positive way, with a clear direction and by working unflinchingly, it is possible to promote the process of development of a vertical and lateral mechanism.

IX.

The higher the efficiency of social regulation and control, the greater its equitability, and the greater the effectiveness produced from a fixed quantity of social resources. The conflict between limited total amount of resources and sharply increasing social demand that China faces requires that efforts be put into regulation and control efficiency. This is both a requirement and an order that can be divided into two aspects in terms of increasing regulation and control capabilities as follows: One is to enlarge the regulation and control system-controlled social resources in order to enlarge regulation and control capabilities. The other is to improve the ways and means of regulation and control to enlarge regulation and control capabilities. A look at the latter derives the eighth realization.

The eighth realization is that because central government regulation and control and local government regulation and control will unrelentingly withhold more social resources in the modernization process (and this is particularly true of central government regulation and control), unless the resources withheld are used and allocated in the fullest and most equitable way, withholding will encounter obstacles. Thus, it is necessary to take effective action to ensure that social resources in the form of materials are used to the full and human resources are able to exercise their full talents in order to reduce unreasonable artificial consumption and mechanical consumption. Abundant social resources even more require that the regulation and control entity be highly efficient. Examples are making policy decisions democratic and scientific, smoothing out regulation and control relationships, improving the quality of regulation and control personnel, keeping open regulation and

control channels, perfecting regulation and control techniques, and innovating regulation and control facilities. Overcoming shortcomings such as bureaucratism is also a necessary condition. Good regulation and control and expand management limits. Under certain conditions, the modernization of social regulation and control can frequently have a crucial effect. For example, a person can handle only x amount of information in an hour using primitive methods, but with a modern electronic computer, he can handle several times again as much information. Use of ordinary postal delivery methods to collate information takes two to three days, but use of a computer network information system solves the problem in just several minutes. In regard to the rational allocation of social resources, the building of a nationwide information network is of great benefit. This can tremendously increase regulation and control capabilities. It can also enable central government regulation and control of local governments, as well as local governments' own regulation and control to attain greater management limits, thereby permitting the withholding and control of more social resources. French scholars Ximeng Nuola [phonetic] and Alan Mengke [phonetic] said in a book titled *The Informationizing of Society* that a fully informed socialized "ideal world" will be a highly planned society. In this society, each center will get from each grassroots unit accurate information about the priorities it is interested in, and each center will have a similar structure and similar plans and information, and will take part all at once.²³ Imbalance in regulation and control is frequently imbalance in specific operation. A reduction in imbalance in operation helps balance regulation and control.

The ninth point of realization is that for social regulation and control to proceed in the direction of socially predetermined goals, complete and systematic standards will have to be drawn up. A complete standards system has to be used to limit the orientation of activities of regulation and control entities at all levels so as to ensure that central government macroregulation and control is consistent with the overall orientation of social development. This will ensure that regulation and control at all levels of local government does not run contrary to the direction of central government macroregulation and control, and that activities within the purview of regulations among local government regulation and control entities are mutually balanced to reduce clashes. At the same time, it will also clearly define authority relationships as a means of regularizing the necessary and agreed upon powers conferred upon regulation and control entities at all levels, and so on and so forth.

The tenth realization is that after all systems, standards, limits of authority, functions, and responsibilities have been determined, social monitoring must be improved in order to ensure that anticipated regulation and control forms, as well as regulation and control objectives are realized, and to ensure the ability of society to amass the social resources needed to carry forward the modernization process to guard against the abnormal erosion of the

social assets that society has created or that have been withheld. Social monitoring of all societies is necessary. As E.A. Ross said: In fact, unless there are certain limitations, it is impossible for any kind of high level organization—military, political, industrial, commercial, or educational—to be superior.²⁴ The modernization process is also a process of gathering together limited social resources that poses an objective difficulty, namely that the more limited the social resources, the greater the need for sharing them. At the same time, the objective necessity not to overdue the sharing is also imperative. In these circumstances, the greater the possibility of abnormal sharing of social resources, the greater the stronger the willingness to take risks. After establishing a framework for the withdrawal of resources and for their redistribution in order to ensure that limited social resources will not be excessively eroded and dispersed, a powerful monitoring system must provide support. Currently the consumption of social resources through bureaucratism, corruption, lavish dining and carousing, travel at public expense, and actions contrary to financial and economic sense has reached alarming proportions. A major inspection of finances, taxes, and prices in 1989 uncovered 7.95 billion yuan in violations of discipline as of the end of October (including 4.06 billion yuan that should have been turned over to the government).²⁵ As of October 1989, monitoring work recovered for the country economic losses of 340 million yuan.²⁷ Procuratorial organs nationwide tracked down embezzled funds and goods having a value of 526.7 million yuan.²⁸ In 1988, funds outside of budget nationwide totaled 236.08 billion yuan, or 94.8 percent of national budget income for the year. This included not only normal revenues, but also abnormal revenues. Only a few instances of the erosion of social resources have been cited here. When the figures for waste, misappropriation, tax evasion, diversions, and disappearance are added up, the total may run into several tens of billions. This is no small amount for resources-limited Chinese society.

X.

The modernization process is also a process whereby all mechanisms, all relationships, and all activities in society change tremendously. This is because modernization stimulates in an unprecedented way the development of productivity in Chinese society. The rapid development of productivity ultimately affects the social system. Just as Marx said: "Social relationships and productivity are closely intertwined. As new productivity is gained, people changing their own production modes, and with changes in production modes, namely assuring one's own way of life, people change all of their social relationships."²⁹ The role of productivity on the social system is an on-going process the ultimate results of which are frequently not apparent for an appreciable period of time. Before this happens, there are various intermediate stages. China's process of modernization will ultimately help, in an overall way, the formation of new cooperative relationships between the central government and local governments; however, during the

intermediate stages lack of cooperation will frequently be evident. The basic reason is that advances in modernization impact on the old balance, and a new balance can only take shape after going through a certain stage. If it is possible to realize accurately the direction of this balance, consciously move it in this direction while simultaneously consciously controlling the capability to cause trouble of released by the destruction of the old balance, the process of shaping a new balance would be somewhat faster, and the cost somewhat less.

Modern society must be a society in which there is a gradual expansion of local government regulation and control capabilities. This is a trend common to all modern societies. However, one must be careful in making lateral comparisons. Relations between the central government and local governments in societies differing in the degree of their development are in a different historical position. Balance between centralization and decentralization can only come about when it is suited to the size of total available resources in a society. One may be confident that with the sustained increase in the total amount of social resources, new patterns of balance between centralization and decentralization will steadily appear. Once the total amount of social resources reaches a certain size, a pattern of balance between centralization and decentralization will be able to form in which there is vertical reliance on the central government and lateral reliance on local governments.

Footnotes

1. Please see the author's article titled, "Relations Between the Central Government and Local Governments in a Changing China: The Political Implications," FUDAN XUEBAO [FUDAN BULLETIN], Issue 5, 1988 [as published in JPRS-CAR-89-035, 24 Apr 89, pp 1-12].
2. See ZHONGGUO TONGJI NIANJIAN [CHINA STATISTICAL YEARBOOK] 1989, Economic Administration Press, 1990.
3. See Zhang Feng [1728 6912], et al: "Profoundly Comprehend the Spirit of the Fifth Plenum of the 13th Party Central Committee To Carry Out More Firmly the Policy of Improving the Economic Environment and Rectifying the Economic Order, and the Deepening of Reform, GAIGE YU LILUN [REFORM AND THEORY], 1986, Issue 6, p 5.
4. Yue Songdong [1471 7313 2639], "Stability and Coordination Problems During China's Development," FAZHAN [DEVELOPMENT], 1986, Issue 6, p 1.
5. See RENMIN RIBAO 23 Nov 1990.
6. See Li Anguang [2621 1344 1639]: "Seven Major Dangers in Local Protectionism," ZHONGGUO JINGJI TIZHI GAIGE [CHINA ECONOMIC SYSTEM REFORM], Issue 2, 1990.
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Applying Historical Viewpoint to Problems of Socialism

91CM0440A Nanchang ZHENGMIN
[CONTENDING] in Chinese No 2, 15 Mar 91 pp 5-9

[Article by Kuang Cuijian (0562 5488 1017): "Use of the Historical Point of View to Look at Problems of Socialism"; ZHENGMIN is sponsored by the Jiangxi Provincial Social Sciences Federation]

[Text] Socialism is both an ideological system and a social movement, as well as an economic system and a social form.

Like everything in the world, socialism has its process of genesis and development, which is to say it has its own history. Therefore, in order to attain a scientific understanding of problems of socialism, in addition to analyzing them logically, it is also necessary to apply the historical point of view to make a historical examination of them.

The historical point of view is a fundamental point of view in Marxist philosophy¹ that holds general methodological significance. It is also an important angle from which to understand all things. Understanding problems in terms of the historical point of view requires placing the problems in a certain historical context, examining the problems, objectively and comprehensively examining the problems in terms of chronological sequence and concrete advances to reveal the pattern of their development. Once history advances to a new stage, an understanding of what went before develops in due course. Then, what is useful and healthy is developed and what is not is discarded.² If one departs from the historical viewpoint, arriving at an understanding and an explanation of the tortuous road of development of socialism that is consistent with reality and science is pretty much out of the question.

(1) Is the Birth and Development of the Socialist Trend of Thought Historically Rational?

Some people hold a completely negative attitude toward socialism, maintaining that people are by selfish by nature, and that socialism runs counter to human nature. Socialism is a strange notion devoid of rationality. In replying to this question, in addition philosophical speculation and economic verification, a historical examination is also possible; i.e., making a long-term systematic examination of the genesis and development of the socialist trend of thought. Since such an examination encompasses the objectivity of observation and the positiveness of exposition, it may be more convincing.

Here the most important thing is to place the problem in a historical context. In terms of the level of understanding today, mankind's earliest understanding of socialism was doubtlessly crude and naive; however, if placed in a certain historical context, its reasonableness and progressiveness is easier to see.

What can a historical examination of the genesis and development of the socialist trend of thought explain?

(1) Trends of thought that are in essence socialist are longstanding and well established in the history of mankind. In ancient Greece, there was talk of a "golden world," and an "ideal nation." In ancient China, there were also both eminent and lowly fantasies about the "world of perfect harmony," and the "sharing of poverty and riches." Such legends and fantasies have gone on interminably, never disappearing from the world. As Lenin said: "The existence of exploitation will forever produce some ideals among the exploited themselves and individual representatives of the 'intellectuals' that run contrary to the system."³ This is to say that socialism has been an ideal that mankind has pursued in his dreams for thousands of years. It positively is not an evil idea that goes against human nature. Rather it is a democratic and popular trend of thought that is deeply rooted in the exploited and oppressed classes themselves. It possesses enduring, has tenacious vitality, cannot be banned, cannot be wiped out, and accords with the desires of the far-flung popular masses.

(2) Utopian socialists were the social models in that historical period. An example was the author of the book titled *Utopia*, the English Utopian socialist Sir Thomas More, who despite having been born into a noble family and occupying a high position (a British judge), maintained his own beliefs and was ultimately courageously beheaded. Another example was the author of *Civitas Solis*, the Italian socialist Tommaso Campanella, a self-educated shoemaker who organized several insurrections in order to found a completely enlightened country free of darkness. After failing, he was imprisoned for 23 years, during which he was cruelly tortured seven times. His final torture, which lasted 40 hours, cost him 10 pounds of flesh and 10 pounds of blood, and left him a lifelong cripple. Faced with the threat of death, and enduring tremendous suffering, he wrote this book while in prison for half his life, leaving it for posterity. One might say that the utopian socialists in history have all been lofty spirited, great persons possessed of broad and profound knowledge, and uncommon intelligence who were of sterling moral character, good and honest nature, and lofty moral character, and were possessed of dauntless will who sacrificed themselves for the happiness of posterity. Were they not such people, could they have become a socialist?

(3) Utopian socialist theory and doctrine is a jewel in mankind's cultural heritage. These theories and doctrines are utopian in their totality and innate character. Nevertheless, they most certainly are not ignorant nonsense divorced from reality, but rather are the foundation of realistic observation of social contradictions. They are the result of unrelenting exploration conducted amidst great hardships. They are not misguided notions of human intellect, but the crystallization of mankind's

knowledge and beliefs. They are the most precious ideological and cultural heritage of human history.

Prior to the 19th century, utopian socialism had the following characteristics: absolute egalitarianism and universal asceticism. Some of the things it advocated bordered on the preposterous. Nevertheless, its ideas and proposals were in keeping with the handicraft productivity of the times. Given the foundation for the level of productivity, the principle of "fair distribution" had to be instituted. Without asceticism and egalitarianism, how could this principle have been instituted? One might say that lacking a foundation for socialized large scale production, and lacking full revelation of the contradictions in capitalism, there could be no scientific socialism. It was the immature historical conditions that produced the immaturity of the ideology. They determined that the ideology would ultimately become mired in fantasy, and would be bound to come to a standstill in the utopian wilderness. Nevertheless, this state of affairs did not mean that the creators were of low ability, but only showed that mankind's exploration of the socialist road was difficult and bumpy. Finding a realistic and scientific road was by no means easy and, given the historical conditions of the time, it was basically impossible.

(2) What Does a Historical Examination of the Socialist Movement Show?

Once the socialist trend of thought developed to a certain stage, it became the socialist movement. The most important thing in correctly understanding the history of the socialist movement is to grasp the basic historical relationships and the basic trend of historical development. Only in this way is it possible to bring to light certain laws in the development of the socialist movement.

The socialist experiments conducted by three European utopians during the 1820's and 1830's marked the first step in the world socialist movement. The advent of Marxism during the 1840's opened a new chapter in the socialist movement. It marked the founding of a communist alliance led by Marx and Engels. This was the first communist party in the history of the world. Alliance members at the time numbered 400. In the subsequent more than 100 years, three international organizations were founded, and three proletarian political parties set off an upsurge in proletarian building of political power, and they made progress that attracted increasing attention. During World War I, one communist party-led socialist country was born, and following World War II, a large number were born, encompassing one third of the world's population. Political parties standing for scientific socialism numbered nearly 200, their membership reaching 80 million.

History and reality tell us that in the course of the socialist ideological trend and movement, there were numerous families other than the big scientific socialist family. Following World War II, 79 countries in Asia,

Africa and Latin America won national independence. Influenced by the world socialist tide, the party in power in 42 of them sought to take the socialist road. Among third world countries, political parties having socialism as their goal numbered more than 100 with a membership of 20 million. This showed the momentum toward steady development of the national socialism movement.

In developed capitalist countries too, the socialist ideological trend and movement developed after World War II. In 1944, the British Labor Party initiated an international campaign to revive the Socialist Party. In 1951 the formal birth of the Socialist Party International was announced, uniting 39 political parties that had democratic socialism as their goal. By the 1970's, such political parties numbered more than 60, growing to 80 in the 1980's with a membership of 20 million. This included 19 parties which held power backed by nearly 100 million voters. The Swedish Democratic Socialist Party, which came to power in 1944, instituted numerous social welfare measures.

The foregoing basic historical facts and historical trends profoundly show that: (1) in the endless flow of history, the socialist movement is a newly emerging social movement that is still in its youth and a long way from mature. One might say it is just unfolding and that it has a boundless future. How can it be said to be "at a dead end?" How can one term it a "big failure?" (2) Despite the various twists and turns in its development, the socialist movement has always moved ahead. Now the socialist movement has developed into an irresistible world trend. (3) Historically, it has been capitalism that has repeatedly gone bankrupt while socialism has won people's hearts. Therefore, the platforms and the practice of many political parties in both developed and undeveloped countries that have out-and-out capitalist systems often sail under socialist banners. Of course, some of them swindle and bluff in the name of socialism, but there is also no lack of true believers and practitioners of socialism. This situation poses for us the serious task of distinguishing between true and false socialism. It also demonstrates that capitalism has been thoroughly discredited in the world, but that socialism remains very much in vogue. (4) Contemporary socialism has begun to explore and practice on a world scale producing many models having different characteristics. In addition to many kinds of scientific socialism, there are also many kinds of nonscientific socialism. Basically, this is a good situation, because no matter whether they succeed or fail, the experiences and the lessons are extremely valuable for all mankind in realizing the transition to socialism. Thus, one can say that all of these things are an integral part of mankind's wide-ranging exploration of socialist paths.

(3) Has History Proven the Superiority of the Socialist System?

Socialism, which was born in the beginning of the present century, has existed for more than 70 years.

Some people suppose that the socialist system has never been superior, and thus has no attraction. This is wrong. Such people do not understand, or at least they misconstrue, this more than half century of world history. Of greatest importance in understanding this issue correctly is not departing from the historical context, simply paying attention to some trifling current incidents. Instead the whole history of the development of socialism has to be looked at, a broad view maintained in the making of a transcendental historical examination.

An objective examination of history shows that at every important juncture in historical development, socialism clearly demonstrated a tremendous superiority in every regard.⁴

(1) During the 1930's, the socialist system demonstrated its tremendous superiority economically for the first time.

The capitalist world went through an unprecedentedly serious economic crisis from 1929 through 1933 during which the entire capitalist world became panic-stricken. There was a deep sense that the end had come. It was in this situation that Oswald Spengler wrote *The Decline of the West* at the beginning of the century, which caused a huge stir for a time. In order to get out of the crisis, Western countries generally took the road of the militarization of their national economies. This led to fascist dictatorship and world war, occasioning an extremely great catastrophe for mankind. At the same time, economic construction of the only socialist country in the world, the USSR, was booming. By 1940, its industrial output value had surpassed that of the United Kingdom, France, and Germany for first place in Europe and second place in the world. It took just 15 years to cover the same distance that the principal capitalist countries had taken between 50 and 100 years to cover. In a single bound, the long backward Russia became an advanced industrial nation in the world. The people's livelihood steadily rose. As a result, for the first time the socialist system exhibited its enormous attraction.

(2) During the 1940's, the socialist system demonstrated its tremendous superiority militarily and politically for the second time.

After the outbreak of war between the USSR and Germany in 1941, the socialist USSR survived a surprise attack by Hitler's Germany. It quickly reversed the military situation to become a mainstay and the hope of the world in the world's war against fascism. This was no accident. First, the USSR, which had gone through more than 10 years of the building of socialism now possessed a plentiful material foundation for dealing with the war. It produced 18.3 million tons of steel annually, and it was able to produce large numbers of tanks, rocket guns, armored vehicles, aircraft, and artillery pieces in an endless stream. Second, its socialist system, which represented the interests of the broad masses of people, was able to mobilize the public quickly to protect the socialist motherland. During the war, the Red Army and the

entire citizenry exhibited a high degree of revolutionary heroism. Virtually every family had someone who lay down his life for the socialist motherland. Without the superior socialist system, would all this have been possible?

(3) During the first half of the 1950's, the socialist system showed its superiority for the third time on a world scale.

After the war, the capitalist world was everywhere in decline. The capitalist countries of western Europe depended on "American aid" to get by. Economic revival was slow and difficult. Both the United States and Japan went through repeated economic crises. Imperialism's colonial system fell like a house of cards. By contrast, all the countries in the socialist camp were becoming ever more prosperous. Their economies revived quickly; their transformation proceeded steadily; and the building of a socialist economy and culture changed with each passing day to demonstrate its own tremendous superiority on a world scale in competition with the capitalist system. During this period, the masses in the capitalist world universally inclined toward socialism, and the people of socialist countries were also proud of their own motherlands. What does all of the foregoing tell us? (1) During the past historical period, the socialist system relied on a traditional system to play a role. The role that this traditional system played essentially embodied the superiority of the socialist system. The traditional socialist system itself also gradually took shape and developed from a foundation gained through this superiority. (2) The traditional socialist system holds extremely great potential in the concentration of human energy and material, in reviving national economies, in industrializing countries, and in dealing with war and various emergencies. Thus, at no time is it possible uncritically to negate totally this highly centralized economic and political system. (3) Given the new historical conditions, it is not possible to carry on this traditional system completely unaltered. Accompanying large scale peaceful construction, numerous contradictions and problems occur as a result of increasingly complex economic relationships that this traditional system finds it more difficult to meet. This requires reform. (4) The reform of socialism does not require an altering of socialism's basic system, but rather only developing what is useful and discarding what is not useful in the traditional socialist system.

(4) The Historical Destiny of Socialism

After socialism went from the utopian stage to the scientific stage, man's scientific understanding of socialism did not come to an end by any means, but rather became steadily enriched and developed with practice.

The change from utopian to scientific socialism occurred in the West, but the change of socialism from theory to reality began in the East. Superficially, this seems so strange as to be difficult to understand. Intrinsically, there was some hidden objective imperative in this.

Socialism's scientific theory is based on a scientific abstraction of a capitalist economy. Scientific abstraction has to express a "pure, independent, and genuine process."⁵ Thus, it is necessary to use a developed capitalist country as a model, then use an abstraction to purify its economic form after which the natural laws of its evolution can be further derived. If one's line of vision is shifted to a backward environment at the outset, i.e., to an environment in which capitalist economic forms are submerged, by pre-capitalist relationships to a greater or lesser degree, boundless difficulties may occur in the revelation of economic laws. As a result of the interference of these complex factors, one might even be easily misled and produce a caricature of socialism.⁷

Once scientific socialism came into being, socialism faced a different type of problem in changing from theory to reality. This was a process and the result of the struggle among various social forces. It not only required the revelation of the scientific laws, but also required mastery and application, and spurring these laws to become a sufficiently powerful social force. Furthermore, this required reliance on the awareness and organization of the masses; it required a powerful political power to serve as a leadership nucleus; it required organs of violence embodying their material strength; it required revolutionary opportunities; and it required revolutionary tradition and experience, etc. All these things were readily at hand in Eastern society where economic relationships were relatively backward and complex.

When scientific theories are shaped in a fairly pure economic environment, and are drawn from an ideal pattern for use in an impure and less than ideal reality, a re-understanding of complex social realities is bound to occur, new problems growing and developing out of this situation. Thus, an adaptation of the form and substance of the original theories has to take place. For example, the public ownership system that the Marxist founders imagined when engaged in theoretical inquiries was a public ownership system within the framework of all society and concentrated nationwide, i.e., a unitary, highly developed system under ownership of the whole people. (Theoretically such speculation was correct and necessary since this was an ideal form of socialist economy that completely embodied the character and trend of the socialist economy). In actual operation, however, quite a large number of places considered and studied cooperative economic forms and collective ownership problems. Furthermore, because of the unevenness of historical development, inevitably a problem arose of application to a more backward environment. As the movement spread, there was also inevitably a gradual turn toward more backward environments. Such a situation was foreseen early by leaders of the proletariat. For example, during Marx's time, the field of vision went from England to France to Germany, Poland, Spain, and Russia. After Marx, it went to the even more backward and larger east. This was the real

road of development that the international communist movement took. Although a tortuous road, it was the road that history required be taken. That such a situation occurred does not at all mean the bankruptcy of Marxist prediction; instead they mark the new development of scientific socialist theories and practice in a broader context.

Can theories shaped in advanced countries play a guiding role in the practice of backward countries? They can. This is because the problem is not in the degree of development but rather "in the role that these laws themselves play in these unalterable certainties and the trends that are taking place. What industrially developed countries show relatively undeveloped countries is only the latter's future circumstances."⁷ However, backward countries must find their own realistic starting point, combining these theories with their own complex national circumstances. It does without saying that to recognize the real possibility of backward countries taking the socialist road also includes the recognition of the inevitability of the existence of relatively low standard socialist countries. Naturally, the socialism of such countries will unavoidable face in practice numerous difficult to predict problems and difficulties. The mission that history has bestowed on these countries is as follows: Overcoming their own difficulties through constant readjustments and reforms even before developed nationals complete their social historical transformation, gradually making all the accomplishments that developed nations have made under capitalism to win the complete victory of socialism. The history of the development of socialism tells us that if it was only after several thousand years of mankind's exploration that scientific socialist theory was born, then the application of scientific socialism to practice, as well as the complete success of scientific socialism in practice will also have to go through an even more tortuous, complex, and arduous course.

By applying the Marxist historical viewpoint, by linking a review of the past to a vision of the future, by heeding basic historical associations, and by understanding historical development trends it is possible to see the following: that society always moves from a lower to a higher level, and steadily moves ahead; that digressions and regressions are temporary and that the world's future is bright; and that mankind's ideal of building a perfect social form in which there is no exploitation, no oppression, and man's full development can be realized—socialism and communism—can be realized after going through all unavoidable hardships.

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1. See Comrade Jiang Zemin's speech at the Fifth Plenary Session of the 13th Party Central Committee
2. Details provided in the author's "Cursory Discussion of the Marxist Historical Viewpoint," which appeared in

the SHANGRAO TEACHERS COLLEGE JOURNAL, Issue 2, 1990; and was published in XINHUA DIGEST, Issue 9 of the same year.

3. *Collected Works of Lenin*, Vol 1, pp 393-394.

4. See Gao Fang's [7559 2397], "The Past, Present, and Future of Socialism."

5. *Selected Works of Marx and Engels*, Vol 3, p 549, and notes on p 378.

6. Ibid.

7. *Selected Works of Marx and Engels*, Vol 2, p 206.

Class Considerations in Party Policies Urged

91CM0384A Beijing ZHENLI DE ZHUIQIU
[PURSUIT OF TRUTH] in Chinese No 3, 11 Mar 91
pp 30-32

[Article by Xu Xuehai (1776 1331 3189): "A Discussion on the Roots of Policy"; The author works in the leading party group of the Jilin provincial party committee]

[Text] Party political construction consists of bringing forth and implementing the party's political lines, policies, and guiding principles. Party political construction directly sets forth the direction the party's other items of construction will take, as well as determines the success or failure of the party's activities. In studying party construction, it is imperative that we treat the question of how, in the course of party political construction, class analysis can be upheld and maintained as a fundamental issue that needs to be earnestly resolved.

Having entered the new historical period of modernized construction and liberalized reform, some have come to doubt whether party political construction should perpetuate the Marxist theory of class struggle. These people feel that since the exploitative class, as a class, has been extinguished, and the core of party work has shifted to economic construction, our policies should thus reflect the demands of the various levels and aspects of society and should not consider as an issue the interests of the working class or the peasant masses, nor should we engage in any more class analysis. This unrealistic view has resulted from the influence of those who feel that class struggle should be extinguished. Lenin once said: "Marxists should not deviate from the correct stance of analyzing class relations." (The Selected Works of Lenin, Volume 3, p 27). Lenin's point remains applicable today. Party political construction in this new age must not abandon the correct stance of proceeding with class analysis, but should instead persist in it. This is true not only because of the fact that class struggle remains with us although the exploitative class has been extinguished as an intact class, but more importantly, it is a truth that is determined by the fundamental nature of our party and our nation. Party documents point out that: "The Chinese Communist Party is the vanguard of the Chinese working class." The constitution points out that

"The People's Republic of China is led by the working class and is a socialist democratic dictatorship founded on an alliance between the workers and the peasants." Our party's nature and our nation's system both determine that the working class and the broad peasant masses are the class foundations for our consolidation of political power and our stabilization of the political situation. It is they who are the main driving force for carrying out modernized construction and liberalized reforms. Consequently, when formulating policy, we must give utmost consideration to the desires and demands of the working class and the broad peasant masses, and fully reflect and represent their interests. As we persist with class analysis in party political construction, putting our basic foothold among the ranks of the workers and peasants is a fundamental idea that must be grasped and a basic requirement that must be carried out.

Since the Third Plenum of the 11th CPC Central Committee, the basic line of "one center and two basic points" and the series of basic policies and guiding principles formulated by the party that uphold the correct stance of Marxist class analysis and reflect and represent the basic interests and desires of the broad masses, are absolutely correct and must be fully affirmed. However, at the same time, we must recognize that because over a period of time the concept of class struggle has been steadily weakened, numerous errors and deviations have appeared, and a series of phenomena neglectful, indifferent and not in the best interests of the worker and peasant masses have developed in the formulation and execution of concrete policies and guiding principles, and in the implementation of certain decisions and requirements. This has manifested itself in many ways, the main features of which are summarized below:

(1) There has been far too much exaggeration and emphasis placed on certain quarters as who we rely on, and we have not done a good job in making the working class and the broad masses of peasants the basic strength upon which we rely. Some of our leading comrades, while carrying out their so-called updating of views, have merely focused on short-term development of production, declaring that village development should rely mainly on "the two households" and enterprise reform should rely mainly on "entrepreneurs," and they depart from the entire working class in favor of isolated, unilateral stress on the role of intellectuals, while rarely raising the issue of the role of the working class and the broad peasant masses. Some propaganda has been aimed at highlighting and elevating the roles of the so-called "stars" and "high-achievers," while portraying ordinary workers and peasants as conservative, lazy, and backward objects of derision whose images have consequently been defamed. Because of this, the senses of responsibility for leadership and of mission among workers and peasants have been harmed.

(2) With regard to the emergence and evaluation of certain policies and decisions, only the views of a

handful of persons at upper levels, as well as foreigners, have been solicited, while the opinions of the working class and the broad peasant masses have rarely been earnestly sought. As for Comrade Zhao Ziyang and members of his brain trust, when they made their decisions and measures for reform, imitating the West, the workers and peasants at the lower levels had numerous opinions, but they fell on deaf ears. And for many reform decisions, the opinions of the workers and peasants were not even solicited and the higher-ups proceeded to argue their cases without knowing the facts of the real world. The brain trust would make something up, the leaders would scratch their heads, and subjective whim would be followed, leading to an erroneous decision, while differing views from lower levels could not be accepted, and whoever raised a different idea was viewed as "ideologically rigid and unsupportive of reform." The leaders also defended their mistakes and stifled opposing views with the line "permit reform to err, but do not permit there to be no reform." During the course of evaluating the effectiveness of the implementation of certain concrete policies, the comments of the majority masses were not heard, while the leaders sat in rapt attention, listening to the so-called evaluations of foreigners, and treated the views of certain Western political bigwigs and economists who advocate a market economy as if it was gospel, and even allowed them to be the judge of the success or failure of the policies and whether they should be retained or discarded. Because of this, certain reform policies lost their foundation with the masses during the period before the turmoil and rebellion and could only stagnate and not move forward, foundering on a series of mistakes.

(3) With a tilted economic policy, our leaders were incapable of seeing that basically economic policy must favorably meet the demands of the worker and peasant masses. As a result, the interests of the working class and the broad peasant masses were concomitantly harmed. The public ownership economy that includes both ownership by the whole people and collective ownership is the main element of our nation's economic structure during this current phase, and is the economic foundation that maintains the interests of the working class and broad peasant masses. For the social status and lives of the worker-peasant masses to improve, we cannot deviate from consolidating and strengthening the public ownership economic system. However, with strengthened propaganda advocating Western-style reforms, the public ownership economic system naturally came under fire and was given a thumbs down. And as this happened, the individual and private-management economies naturally were cast in a favorable light. As a result, highly abnormal phenomena emerged as we blindly followed an economic tilt away from public ownership toward individual ownership and then toward private-management economies. Because of this abnormal tilt, as well as the fact that macro-controls had no bite and supervision was not rigorous, a small handful of people

got rich, leading to serious inequities in social distribution. This situation harmed somewhat the actual interests of the worker-peasant masses and dampened their enthusiasm.

Summing up our experiences and lessons over recent years in economic policy, if we are to meet the new conditions and features, which differ from those of the past, that confront party political construction in this new age, we definitely must treat the worker-peasant masses as the basic force that we rely on, and have as our policy the reflection and representation of the interests of the worker-peasant masses, and straighten out and resolve certain important relationships and issues.

Unity of all forces that can be united and reliance on the worker-peasant masses must be united with a stress on the broad societal nature and distinct class nature of policy. Unity of all forces that can be united and mobilization of all positive elements is a basic guiding principle for carrying out socialist modernization. This, however, does not contradict treating the worker-peasant masses as a basic force upon which to rely. The objects for unity and forces for reliance are political categories with different implications and requirements, and should neither be confused nor substituted for one another. Our policies, in particular, many of our concrete policies, consider both the interests and requirements of various levels and aspects of society, and must be characterized by broad social concern. However, at the same time, all policies must, in their basic direction, serve the fundamental interests of the worker-peasant masses and be characterized by their distinct class natures. If, in the formulation and implementation of concrete policies, we influence and obstruct the basic interests of the worker-peasant masses, the concrete policy concerned is an erroneous one that must be changed or adjusted. In short, if we can straighten out and resolve these relations and issues, then we will certainly be able to implement basic party lines, policies, and guiding principles in a more correct and comprehensive way, and thus, advance the forward development of all of our items of business in a quicker and more effective manner.

Writer Presents Manifesto Rejecting Communism

91CM0384B Hong Kong CHENG MING
[CONTENDING] in Chinese No 162, 1 Apr 91 pp 53-54

[Article by Yi Gui (2011 3415): "Why Have We Forsaken Communism?"]

[Text] (Editor's Note: Mr. Yi Gui is a young writer on the Chinese mainland whose novel entitled *YIQI [ABANDONMENT]* was published in March of 1989. After the 4 June Movement, he wrote another novella of nearly 30,000 characters entitled *31 December 1989* which uses the events of the people's movement in the preceding spring and summer as its backdrop. This story was initially published in HUA CHENG magazine, Issue 6, 1990, and days later Taiwan's LIEN-HO WEN-HSUEH,

Volume 7, Issue 2, also published the story in its entirety. It received favorable reviews both at home and abroad.

The following is the full text of Mr. Yi Gui's political manifesto, "Why We Have Forsaken Communism," which he has entrusted to us for publication.)

Our generation, "born in the new society and raised under the red flag", was filled with revolutionary fighting spirit at an early age, chanting political slogans in the way others might sing nursery rhymes. And our earliest efforts at learning to read began with prostration before a deity: "Long live Chairman Mao!" was our first ideological assignment. However, on 9 September 1976 Chairman Mao died. True to unswerving natural law, our young and tender hearts were dealt a critical blow, like we had never felt before. Because of the distortions in our original assignment, the ideological framework that had been painstakingly constructed cracked apart. From the succession of political convulsions that followed, we finally got our chance to truly see the disgrace that had communism brought to our lives. Moreover, we finally chose, through a variety of means, some soft and some blunt, to forsake communism.

1. Communism severed the rational connection we would otherwise have had with our traditions. We never have the chance to realize the warmth we might have experienced through classic societal units such as the family, and instead knew only obedience to strict "organizational" discipline and absolute "organizational" ideas. The "human tenderness and affection" that had been passed down through the generations became soaked with an all-pervasive and malignant redness, and henceforth reeked of blood. Among individuals, love was replaced by calculation, entrapment, and hostility, all in accordance with the prevailing moods, and similarly, man could enjoy, wink at, and wholeheartedly imitate the brazen slaughters and elaborately planned schemes that he saw being carried out. In the same way, we will never, in our own lives, be able to go through the personal struggles that temper one and lead to an embodiment of the ethical standards respected by humankind. Glimmering gems in behavior such as responsibility, solicitude, righteousness, and sacrifice have been appropriated by communism for its doctrinal ends, and the lives of those who are outside of the communist shadow have suddenly degenerated such that many are simply evil. Obviously, as long as we are deprived of even a reasonable portion of our traditions, we remain a people of dubious origins.

2. Communism has blocked off the normal channels through which we might otherwise make contact with human civilization. By resting content with congratulating ourselves for the inventions made by our ancient forefathers, we have become imbeciles in the technological age. And the extreme anxiety that communism is experiencing with regard to its own fate leads it to hysterically reject the philosophy of the enlightenment, the prelude to the technological revolution, and to strike out at the triumphs of mankind. Having cleverly sifted

man's spiritual civilization, the communists have saved nothing for us. Communism flatly refuses to allow us the beneficial training in judgment and appreciation that we might get from modern spiritual civilization. Instead, it blindly and coercively turns our organs of reception into plastic. Plasticized organs of reception mean that the ability of the whole society to assimilate things is greatly reduced, and as the theoretical premise of development is rejected. Blind introductions of technology can only lead to the birth of a deformed society. Thus, after years of having communism instilled in us, we suddenly discover that we are actually a people with a highly uncertain future.

Having gone through the two processes outlined above, our lives have become unsettled issues. We lack roots, we lack hope, and we are full of questions. These questions haunt and gnaw at our generation, revealing an oppressive alienation in both our daily and spiritual lives.

3. Communism has stripped us of our spiritual freedom. Communism, a form of cultural hegemony, unremittingly persists in violating both a man's intellectual and emotional world, and deals a stiff blow to any and all forms of resistance, while the "weapons" it employs are not blunted by human ideas of fair play. Communism has imposed a state of cultural poverty upon us and offers lies to ease the pain, while refusing to accept challenges about metaphysically speculative ideas like the value and meaning of life. Communism is like a religion in that it weaves dreams of a heavenly paradise in order to palliate the suffering masses who are dissatisfied with the material and spiritual poverty that communism has surrounded them with. The lives of the vast majority of the people are praised for the way they contribute toward the dream, but a very small minority actually designs and enjoys a heavenly life that is guaranteed for them by the selfless contributions of the majority. This is how communism works. It mercilessly pushes for "great unity" and unceasingly crusades to inflict maximum indignities on human nature. Human creativity regresses to absolutely nothing and individuals become standardized into "screws" for the monolithic state machine, a machine that revolves around planning, primitive methods, low-efficiency, and overloading, to ultimately crank out happiness and special privileges for that small minority. The array of brutal methods that have been used to divest us of our spiritual freedom have in turn killed the confidence and ideas we would need to resolve the whole host of unsettled problems facing us.

4. By stripping one generation of its private property, communism stripped succeeding generations of their opportunities for material development and completely deprived the people of any freedom in their material life. By giving people only the meagerest of wages to get by, communism makes people develop a natural reliance on the party. Communism then sets up pitiful awards and bonuses to arouse and buy the people's gratitude. In fact, communism's allocation and taxation policies reflect all-out protection of the special privileges accorded "the people's servants" and the shameless exploitation of the

common man who is "master of his nation." This exploitation hits particularly hard at the peasant class who are not even allowed to realize their dream of enjoying a city life. The strict system of household registration supports the Chinese political and economic design of keeping the peasant locked onto the few mu of land in front of his home, with generations hunkered over, "faces to the dirt and backs to heaven." Having gone through the whole array of deprivations that accord with the "iron logic" of communism, we find ourselves bereft of the material capacity to solve the numerous problems in our lives.

Having gone through the two processes outlined above, we, who were raised "from the flower of the motherland," find ourselves having grown to become a special class of cripples in human society. Humiliated on both material and metaphysical fronts, it seems that forever our only recourse is to submit to lives that lack foundation or hope and that are filled with questions. It seems we will forever have to endure our lives of oppressive alienation.

However, it was through a shattering of the myth that the four processes discussed above became exposed and we were able to see clearly how communism had violated the legitimate rights we deserve in our lives. And having done this we could rejoice in the fact that, somewhere in the depths of our hearts, there remains an inherent goodness. It is this inherent flame inside us that gives us the ability to respond to the call of irresistible historical trends, and to remain open to the mighty influence of human civilization at its highest levels of development, while at the same time we suffer enormous pain in our own lives. Ultimately, it is the indomitable impulse inside of us, safe from communist deprivation tactics, that leads us to forsake communism. In doing so, we demonstrate that we will no longer be content to submit in obedience. We hope to create meaning in our lives through our own thoughts and actions. Using rebellion as our form, we will build a great age for the Chinese people. It is fitting that there happens to be a fundamental ethical precept that we can use as the starting point for our heroic endeavor: we forsake communism today in order that we will not forsake China.

Need for 'Century-Spanning' Marxism Discussed

91CM0401A Beijing DAXUESHENG [UNIVERSITY STUDENTS] in Chinese No 4, 10 Apr 91 pp 10-13

[Article by Correspondent Zhong Yan (6988 1484): "Century-Spanning Marxists and Century-Spanning Marxism. First in a Series on 'Century Spanning'"]

[Text] In late February, this correspondent conducted an interview of Ren Yanshen [0117 1750 3947], a 46-year-old deputy secretary in the Education Committee of the Beijing CPC Municipal Committee.

The conversation lasted an hour and 40 minutes.

Reportedly, there has recently been a gradually increasing demand within the CPC for the "urgent training of century-spanning Marxists." The departments concerned have designated for training several kinds of people between the ages of 35 and 50, the fifth group of students from the Cultural Revolution; worker, peasant, and soldier students; and some university students from the classes of 1977 and 1978. Ren Yanshen approved of this call given the overall situation and the status of higher education, and he expressed vividly the following points of view:

I believe that the idea of "training century-spanning Marxists" is based on the perception that the 10 years remaining between now and the end of the present century are fateful years for the success or failure of socialism.

Western countries suggest the training of "those who know America" and "those who are pro-American" from among outstandingly talented young people and those qualified to be successors in socialist countries and from the upper stratum of third world countries. Furthermore, some westerners, such as Dr. Henry Kissinger, also realize that as long as the Communist Party brings outstandingly talented people into the existing system in a planned way, evolution will become extremely difficult. The fundamental problem is successors.

The updating of cadres and teaching staff in institutions of higher education must also be done during the 1990s. Only 12 percent of the incumbent top level university leaders will be able to "span the century." The teaching staff bulges at both ends, but is small in the middle. This means that only 16 percent are between the ages of 40 and 50; however, the future of universities and the quality of education will be determined by the quality of those people in the century-spanning group. In a fundamental sense, the success or failure of socialism in China will be determined by the number and the degree of experience of China's Marxists. The training of professionally skilled people from among university students is relatively easy, but the most urgent, and most difficult thing to do is to train a number of talented people who are not only professional, but are also politically-minded, and are management-minded as well. China's century-spanning Marxists must be people of "gigantic stature." They must be both versed in the basic theories of Marxism and have a solid grounding in the national circumstances and the masses. How can those who neither tower to the sky nor have their feet on the ground be anything but interlopers?

He believes that "spanning the century" is a relay race in which those who hiss and boo, do not accept the baton, and who want to begin all over again are fools.

I believe that only those who stand on the shoulders of those who have gone before can be giants. In accepting the baton from those who went before, there are three attitudes one cannot adopt. The first is making catcalls during the first relay rather than shouting encouragement; the second is unwillingness to take the baton, and

hoping instead that the first heat will fail; and the third is feeling that those who went before did not run well, and that one has to start all over again. Thus, they will never overtake anyone else. I believe that people should be allowed to enter the playing field during the peak period of their energy, initiative, and endurance. They should be given more work to do, and become the main force. This is the only way in which our country can run the relay race faster.

As for "the fourth generation," Ren Yanshen believes that they snack too much and eat regular meals too little.

I read a book that said that the fourth generation, which came of age during the 1980s, dares eat anything. They are not picky eaters requiring special consideration; consequently they have sound teeth, powerful physiques, and strong immune systems, while the generation trained before the Cultural Revolution ate only a fixed diet. They grew up being fussy about their diet and demanded special consideration. I cannot readily subscribe to this. I believe that the fourth generation snacks too much and eats regular meals too little. They lack a scientifically balanced diet. When a person's digestive capacity and immunity are low, he should eat more nutritious and healthy food. One should not suppose that you can "eat dirty things without getting sick." By not eating regular meals, I mean that they know too little about Marxist theory, and their understanding of the condition of their own country is not deep.

He raised the following point: there is an increasingly tendency in international relations to "let politics take command."

A Japanese professor (Terumasa Nakanishi) wrote an article for the January issue of HUSHENG [VOICE] titled "Highly Politically Colored Age." I noticed that in their handling of international relations, some large western powers increasingly emphasize politics and ideology. They are practicing "let politics take command." They call for pluralization when actually they are promoting centralization, forcing capitalist political forms and values on people in an effort to unify all creation. They will not be happy until they can get rid of socialism once and for all.

In opening to the outside world, we encountered a contradiction, namely that for things we want, others are unwilling to give; and what others are willing to give, we do not want. Risks are not very great in the importation of goods and materials. First, both parties exert controls. We have foreign trade units, and they have the COCOM regulations as well as sanctions. Second, the balance of payments limits our ability to pay; third, there is the need to take into consideration our ability to absorb the imports, and the socioeconomic benefits. The real danger is the importation of invisible spiritual products. The problems of controls, absorption, and benefits are much more complex and there is a tendency to lower one's guard.

This correspondent found some pervasive uncertainties, and even certain sentiments, during broad contacts with university students, which Marxism cannot avoid when spanning the century. Although I gave Ren Yanshan no advance notice of these questions, meaning that he was mentally unprepared, after hesitating somewhat, I took the opportunity to raise them with him.

The first question was: Does a "real danger" truly exist from peaceful evolution?

I first heard this term in 1964 when Chairman Mao, with his singular strategic foresight, issued a warning about it. At that time, however, the main strategy that Western countries used to counter socialist countries was the policy of containment. The peaceful evolution strategy was secondary. Socialist countries were in an ever more flourishing period, while Western nations were beset with both internal and external difficulties. In a situation of "the east winds prevails over the west wind," their notions about evolution held little attraction. Furthermore, China was basically closed, so evolution could not easily be induced. Consequently, people lacked any real sense of urgency about opposing peaceful evolution.

Today the situation is different. A certain reversal of positions has taken place in the competition and contest of strength between the two social systems. One might say that "the enemy is strong while we are weak; and the enemy is on the offensive while we are on the defensive." The opening to the outside world has both provided us with a fine opportunity to attract foreign capital, technology, and fruits of civilization, and it has also provided others with an opportunity to conduct peaceful evolution. Western nations' strategic emphasis on countering socialist countries has shifted to peaceful evolution, and frequently succeeds, scoring historical breakthroughs.

Prior to 4 June 1989, the term "peaceful evolution" had virtually disappeared from our political vocabulary. This was not the result of tactical considerations, but rather because we had relaxed in our vigilance. Following the "1989 political disturbances," and the dramatic changes in Eastern Europe, we revived our opposition to peaceful evolution. This was not a "propaganda necessity," but resulted instead from the alarm that reality sounded for us. After reading Richard Nixon's, "1999: Victory Without War," and Zbigniew Brzezinski's "The Grand Failure: The Birth and Death of Communism in the 20th Century," we could not help but feel alarmed. Our constant worries about, and our actual actions to oppose peaceful evolution are really not commensurate with the entire strategy, tactics, and aggressive offensive of the West in conducting peaceful evolution.

Students entering universities 10 years ago heard for the first time the formulation "imperialism is down but not out." Now 10 years later, university students hear that socialism is facing a "life and death struggle" that will determine whether it succeeds or fails. In this controversy between the two systems of socialism and capitalism, can

anyone discern which will prove superior and which will prove inferior, and which will win and which will lose?"

At the end of 1989, certain people in political and public opinion circles in the West were deliriously happy about the repeated reversals in Eastern European countries. They rashly announced that they would finally bury communism by the end of the present century. They also drew a blueprint for Eastern Europe of "stability within a year, a change of course within 2 years, and prosperity within 10 years." A year has passed, but these heady feelings have now been replaced by a mixture of both joy and sorrow. They say that no one has ever attempted a transition from socialism to capitalism; it is an experiment for which no one has any certainty of success. Some western experts estimate that Eastern Europe's transition period will require at least 15 to 20 years. The people of Eastern Europe increasingly feel perplexed, dejected, disappointed, and terrified. They have lost both confidence and patience. The Czechoslovakian minister of finance said, "Where others break two eggs to make a plate of scrambled eggs, what we are doing resembles trying to find a way to restore scrambled eggs on a plate to two whole eggs." Certainly, it is difficult for socialism to reform and move ahead; however, to try to put the clock back offers no way out. It is still too early to announce the final victory or defeat in the contest between socialism and capitalism; it would be better to "watch out for frequent changes in the scenery." Here I would like to quote a statement that a noted American bishop, Lali Aifulisite [phonetic] made in early 1990. The events that have taken place in East Europe and the USSR, "are regarded by some gloating authoritative commentators in media circles and some government officials as a crisis for communism and a victory for capitalism." This is "both heartless and rash. What is worse, it is not true." "Until it is finished, one should not say it is over."

Faced with sudden changes in the weather, and a complicated and confusing world situation, university students are more concerned about what road China will take.

The road that a country chooses is not designed according to the wishes of political experts; rather it is an outcome of the interrelated factors of history, national circumstances, and numerous realities. There are very many roads in the world today, and everyone says his own is best. Others may follow whatever road they like, but the Chinese, after all, do not live in the United States, or Western Europe, nor do they live in the USSR or Eastern Europe. In the final analysis, they have to proceed from realities as they exist in China to take their own road. The greatest realities in China are its 1.1 billion population, and that it has been taking the socialist road for more than 40 years. Any change in this road requires taking into consideration how travel along this road has been for more than 40 years. Do the 1.1 billion people agree or disagree? At this point, I cannot help but remember some commentaries from abroad on the occasion of China's 40th national anniversary:

First, New China was born as an antithesis to foreign intervention. She "not only broke free from the semi-colonial status that existed before the founding of the people's republic, but also entered the ranks of great nations on the international political stage. This tremendous change made the Chinese feel proud, while it also gave the people of developing countries extremely great courage."

Second, New China was born as an antithesis to the warfare among warlords. "That Mainland China has maintained independence and unity for 40 years is a great achievement of epic proportions in the recent history of China."

Third, the CPC regime has basically solved the tremendous problem of food, clothing, shelter, and transportation for a population of more than 1.1 billion. This may be said to be a magnificent achievement."

Fourth, in November 1990, Hong Kong's MING PAO said in a comparative analysis of reform in China and Eastern Europe that China's "economic reform during the past 10 years was the earliest economic reform carried out in any communist country in the world. It was also on the largest scale, lasted the longest, and also had the best results. What was even more difficult to achieve was to keep the entire country from taking a severe pounding. The hardships that the people endured were rather light. Such large scale reform is rarely seen in the economic annals of the world. Its great success truly deserves to be extolled."

Were China's existing system to be changed, people would naturally wonder whether China might once again sink into the vassalage of the big powers. Might it disintegrate into warfare among warlords? Might a tremendous tide of refugees result? Might all the fruits of reform be wiped out? What kind of people would wish that China would change its socialist system? One kind are people who might become officials and rich during warfare, and another are people who might climb to the top levels of society during polarization. An overwhelming majority of people would not approve. Some people say: "in a multi-party system, I would not become an official and in a private ownership system, I would not get rich." This shows in a reverse way that socialism has a wide mass foundation in China.

With regard to university students' understanding of socialism, Ren Yanshen believes that they are learning from two textbooks—the party textbook and the textbook of life. This correspondent asked him whether he could explain the contradictions between the two textbooks to make socialist education more convincing. He said:

One must recognize that there is a very great difference between socialism in practice and socialism in theory. Various phenomena still exist in real life that run counter to the goals of socialist values. This is a reality in the preliminary stage of socialism. When a clash occurs between the content of these two textbooks, young

students with little experience in society and low endurance may believe the textbook of life and doubt the party textbook. The conflict between these two textbooks cannot be fundamentally resolved at the present stage. This is a sticking point in ideological education. Nevertheless, the direction of our efforts must be to make education adhere to socialist goals. The important thing is to explain realistically what is acceptable socialism and what is not acceptable, and what is basically a departure from socialism. At the same time, it is necessary to work actively to deepen reform and vigorously develop our strengths and eliminate our weaknesses. For example, corruption is incompatible with the essence of socialism, and with the aims of the Communist Party. The Communist Party must courageously and forthrightly oppose corruption. However, whoever says that he will root out corruption as soon as he comes to power is a utopian swindler. During several student movements, some students voiced opposition to corruption and to inequitable distribution as socialist values; however, to go from this to suspicion of and opposition to socialism, is erroneous logic.

A common vocabulary and common methods run through modern socialist and capitalist societies. Some overlapping ideas exist such as plan interference, market regulation, state welfare, the stock share system, and worker participation in enterprise management. For this reason, some people suppose that the two social systems will "blend" and converge. Ren Yanshen talked about his different understanding of convergence theory.

Socialist society is born out of the womb of capitalist society. Its superiority and progressiveness lies not only its ability to overcome the fundamental shortcomings of capitalism, but also in its ability to carry on critically all of the superb achievements in civilization that the capitalist system has created. That it shares things that are identical with or similar to capitalism is not at all strange. Things like commodities, markets, and stock shares are not peculiar to capitalist society; socialism can also use them.

In the process in which the two social systems co-exist for a long period of time and vie with each other, they can take from one another certain things to better their own development, the better to triumph over the other. This "mutual study" must be carefully analyzed. Are the "similarities" and "differences" of both a matter of many likenesses with minor differences, or of many differences with few likenesses? What things have changed in both, and what things have not changed? Are the changes quantitative or qualitative? Are they true changes or false changes? Although capitalist countries' "mixed economy," "people's capitalism," "plan interference" and "welfarism" play a perfecting and regulatory role, they have not changed capitalism's private ownership; thus that cannot eliminate the basic contradictions in capitalist society.

Inventors of "blending theory" and "convergence theory" themselves do not necessarily believe in them.

Those who do believe in them are probably some pedants who are divorced from reality, or ingenuous and unsophisticated young people. American political experts and capitalist do not believe in them. Kissinger does not believe in them. People also find it hard to imagine how the Communist Party and the Republican Party can be blended. What convergence can there be between capitalists and hired workers? How can there be a blending between distribution according to capital and general prosperity? In those countries in Eastern Europe that have already changed, people see that it is not "two becoming one," but one eating the other and one eliminating the other. What some large Western countries are practicing today is not "blending theory," but rather they are impatient to, and are aggressively trying to devour socialism once and for all.

Some people suppose that the urgent task of the moment for China is pragmatism rather than principles or ideology. The most important thing is to move the country ahead, so what sense is there in being a stickler about isms and a controversy about the road to be taken? In replying to this question, Ren Yanshen emphasized assessment of the problem of "falseness."

There should be less empty talk and more real deeds. The four modernizations were worked out, not talked out. In this sense, emphasis on pragmatism is correct. However, if one says that all one needs do is immerse oneself in building and never mind ideology, orientation, or the line, that is wrong.

Theory is the greatest macrocosm. Without correct theory, there can be no correct action. The line determines everything. Today numerous countries are engaged in reform and modernization, but some do not do it well, and some do it terribly. The fundamental problem is whether their line is correct.

For the past 10-some years, China's modernization has scored tremendous, internationally-recognized accomplishments. It has been a period in which socialism's achievements were greatest, the increase in strength was fastest, and the real benefits that the people received were greatest. However, it was also a period of the most serious disturbances since the founding of the people's republic that almost upset the apple cart. The problem, it is feared, was not with "pragmatism" but with "principles and theory." This is to say, it was a problem of lack of evenhandedness. This shows that unless the power in the party is adept at dealing with political issues, and if it is politically weak and lax, troubles are bound to happen. Even if the economy improves, social turmoil can occur. For the individual, ideals, convictions, train of thought, concepts, value yardsticks, and the state of morale are all matters of "principle and theory;" however, they control actions at all times and in all places. Therefore, in running a country and in a personal philosophy of life, pragmatism and theory must be combined.

Following the "1989 disturbances," French President Mitterrand said: "China has no future." This, taken together with national nihilism and the challenges and difficulties that China faces made some university students lack sufficient confidence in China's future.

Does China have a future? This is the number one concern for hot blooded Chinese university students at home and abroad.

Richard Nixon predicted that China will become one of the world's superpowers during the 21st century, but Mitterrand said that China has no future. What China will or will not be, will not be decided by what foreigners say, but by what Chinese do.

For a period following the Japanese Meiji restoration, some Westerners and Japanese felt that Japan was no good. Some people said that the Japanese race was no good; it should be crossed with the white race to make an improved Japanese race. Some people said that because the Japanese did not eat beef or drink milk, they lacked stamina and endurance. Still others said that Japanese writing must be discarded. A century later, however, Japan has become the first modern nation in the orient, and it retains rich national features in every regard. During the 1970s, an American wrote a book titled "Japan Ranks First." No longer does anyone say that Japan is an inferior nation.

I remember that when China's reform was just beginning and the situation it was facing was one of having gone through 10 years of turmoil and having to undertake neglected tasks, many people had no confidence in China's ability to double the economy's gross output value in 10 years. A popular saying at the time was: "China is like a basket full of crabs. You hook onto me, and I hook onto you, so none can move ahead." However, 10 years have passed, and no longer does anyone dispute China's "ability to double gross output value" because it has already been doubled.

The lord helps those who help themselves, and people respect those who respect themselves. China's future will be decided by whether the Chinese have self-respect and self-confidence, and whether they have self-reliance, fortitude, and a pioneering spirit. At this point, a passage from Chairman Mao's speech, "The Chinese People Have Stood Up" crossed my mind. It was: "Let the reactionaries at home and abroad tremble before us; let them say that this or that thing that we do, will not work. The Chinese people's unflinching efforts will inevitably steadily attain their own goals."

Continuing, Ren Yanshen pondered deeply for a while before answering the final question: What are your dreams (or ideals) as a person?

I dream about too many things. When I entered the university in 1964 (author's Note: Ren Yanshen graduated in dynamics from Qinghua University), China was going through unceasing political campaigns and the 10 years of internal turmoil that followed. It was deeply

afflicted with social disturbances. College students are a most energetic and most unstable stratum in society, and they are also least able to protect themselves. As soon as a social disturbance occurs, they are the first to become embroiled. They are also the ones who suffer the worst consequences and the greatest harm. My wish is that the university students of the 1990s will be able to grow up in an orderly and stable social environment. Another wish is that the second strategic goal in China's socialist modernization can be realized, and that during the 21st century, China's 1.2 to 1.3 billion people will live and work in peace and contentment, and live a "comparatively well-off" life. That will be a great contribution to all mankind.

Political Wrangling Over Economic Reform Viewed

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in Chinese No 50, 15 Apr 91 pp 47-52*

[Article by Ting Wang (0002 2598): "Re-initiation of Economic Reform in the Second 'North-South War'—A Reading of Information About the Chinese Communists' Recent Political Struggles"]

[Text] The author, Mr. Ting Wang, who is 50 years old was formerly deputy editor of the Hong Kong MING PAO, editor-in-chief of the MING PAO YUEH-KAN [MING PAO MONTHLY] library series, a researcher at the Mass Dissemination Research Center of Hong Kong Chinese University, and a visiting research fellow at the East-West Center in the United States. He has been invited to visit and study in academic organizations in the United States, Japan, and the USSR. He is currently an advisor in the editorial department of CHAO LIU.

In addition to being published in Hong Kong CHAO-LIU, MING PAO, and HSIN PAO, his academic thesis was also translated into English, Japanese, and Korean. It appeared in the American publication, PROBLEMS OF COMMUNISM (a bi-monthly), the Journal of Northeast Asian Studies (a quarterly), Chinese Law and Government (a quarterly), the Japanese CHUO KORON [CENTRAL PUBLIC OPINION] and the TOA [EAST ASIA] monthly, and in the South Korean SIN TONG A [NEW EAST ASIA] monthly.

Published works in Chinese include "An Anthology of News Commentary," "A Critical Biography of Wang Hongwen and Zhang Chunqiao," and "A Critical Biography of Hua Guofeng." Works translated into English include, "The Emergent Military Class" (included in "Military and Political Power in China in the 1970's edited by Dr. William W. Whitson, Praeger Publishers, New York), and "Chairman Hua: Leader of the Chinese Communists" (Published by McGill Queens University, Canada). Works translated into Japanese include "A Critical Biography of Hua Guofeng (Published by Shinsen Press, Japan). A collection of essays he wrote is "Jottings for Night Reading."

Books he has edited include *Compilation of Data on the Chinese Communist Great Cultural Revolution*, Volumes 1 - 6 (Published by MING PAO), *Compilation of Data About the Great Cultural Revolution in China Mainland News Circles*, (Published by Hong Kong Chinese University), and *Literature of the People's Republic of China (1949-1928)* [as published], which was jointly edited, and published by Indiana University in the United States).

New works to be published in 1991 and 1992 include: "Events Surrounding June 4th," "First Night Rights and Chinese Mainland Sexual Literature," "Su Dongpo," "Power Battlefield," and "The Third Tide."

Chinese Communist high level political struggles have always been complex, and party journals and newspapers usually do not directly report the truth. As a result of the political opacity and lack of a transmission medium among the people, outsiders can only glean information from party journals and newspapers in a roundabout way, relying on things such as the use of past events to satirize current affairs, oblique accusations, and attacks by innuendo to unravel internal policy differences and clashes over authority and interests to explore the possibility of changes in the political situation.

Back in November 1965, Mao Zedong and Jiang Qing used Shanghai's WEN HUI BAO to expose and criticize Beijing Deputy Mayor Wu Han's "Dismissal of Hai Rui," thereby unveiling the prelude to the "Cultural Revolution" that spread from north to south.² This was the first "North-South War."

Going through the time tunnel to today, a quarter of a century later, we find that an article published in the Shanghai Municipal CPC Committee mouthpiece, JIEFANG RIBAO, attacks the "ideological stagnation" of the "hardline faction," and plays up further "emancipation of thinking." This is a strong signal for a second "North-South War."

After comparing the first "North-South War" with the second "North-South War," this article relates the JIEFANG RIBAO article to Zhao Ziyang's "May 13th Speech" of 1989 to unravel the current Chinese Communist political struggle in terms of the *deja vu* situation of 1987. It analyzes the struggle between the ocean faction (the economic reform faction) and the capital faction (the hardline faction), and the new turn of events resulting from Deng Xiaoping's paternalistic views. The ocean faction now seems to have gained the upper hand, so a chance exists for the "re-initiation" of economic reform.

Two North-South Wars in a Quarter of a Century

In March, the organ of the Shanghai Municipal CPC Committee, JIEFANG RIBAO, launched a rebellion against the hardline faction's "ideological stagnation," thereby unleashing the second "North-South War." This new signal of political struggle has yet to be discovered by the media abroad and in Hong Kong.

Let us go back a quarter of a century to 10 November 1965 when Mao Zedong and his wife, Jiang Qing, directed Shanghai's WEN HUI BAO to publish Yao Wenyan's article. On the surface, this article was a criticism of Wu Han's historical drama, "The Dismissal of Hai Rui." Actually, however, it went beyond the bounds of literary and artistic criticism. The article was a trial balloon for Mao Zedong's "Cultural Revolution" and for reorganization of both the Beijing Municipal CPC Committee and the Central Committee leadership.¹ This was a prelude to the first "North-South War" in the 1960s. Mao Zedong's and Jiang Qing's deployments were completed in Shanghai within several months, and they returned to Beijing for the formal launching of the "Cultural Revolution." First, they exposed and criticized the "Peng, Lu, Luo, and Yang clique" in the Central Committee Secretariat, and they reorganized the Beijing Municipal CPC Committee. The capital faction quickly collapsed, and the ocean faction ultra-leftists Zhang Chunqiao, Yao Wenyan, and Wang Hongwen successively entered central committee leadership positions.

The second "North-South War" is a political struggle in which no guns and tanks can be seen. It is a struggle about ideological consciousness, policy orientation, and power and interests. The implications of the "North-South War" are as follows: 1. It was launched in Shanghai in the south where the ocean faction attacked the Beijing Municipal CPC Committee and the Beijing Central Committee hardline faction for "ideological stagnation" that thwarts reform. This action gained the support of high level personages in the central committee such as Jiang Zemin and Qiao Shi whose origins are in Shanghai. 2. The area running from Qingdao and Shanghai to Guangzhou and Haikou on the southeast coast is more developed than northern areas, and ideological concepts are also more open. Cadres there have a fairly strong "sense of urgency" about the deepening of economic reform and the development of an externally-oriented economy. Ideas for the development of Pudong and the leasing of Yangpu on Hainan Island encountered obstruction from the hardline faction. Thus, not much could be done in the way of opening the economy of the south to the outside world, and consequently strong appeals for a "breakthrough" arose.

Naturally, the term North-South war is very crude. Broadly speaking, it means a clash between the economic reform faction and the hardline faction. Among leaders in the central committee and theoreticians in Beijing, there is no lack of strong personalities or dynamic people in the economic reform faction. In the present "North-South War," the reform faction in the central committee has joined hands with the reform faction in theoretical circles in Beijing to attack the hardline faction. This battle is similar in form to the first "North-South War" in the following ways. Twenty-five years ago, Mao Zedong used ultra-leftists in the ocean faction to collude with ultra-leftist forces in the Beijing Central Military Affairs Committee (the Lin Biao clique) to launch the

"Cultural Revolution"² in order to take away the power of the moderate faction in both the Central Committee and the Beijing Municipal Committee. As a result, society descended into a barbaric, medieval period of rule by divine right. There are two differences, namely that in the first "North-South War" the ultra-leftist faction seized power in violation of the Chinese Communist party constitution and the national constitution. They also used political campaigns to extend the war into society, causing a great catastrophe. *In the present "North-South War," the economic reform faction is counterattacking the hardline faction. The expectation is that there will be no large-scale power upsets, nor will there be a widespread political campaign involving all the people and creating social upheaval.*

From the Events of the 60-Year Cyclical Occurrence of the Year of the Ram to the Launching of Revolt

Understanding the second "North-South War" requires that one first be able to discern the meaning of the political information revealed in a JIEFANG RIBAO article by Huang Fuping [4106 3940 1627].

On 15 February, the renowned Huang Fuping's commentary titled, "Be the 'Lead Ram' in Reform and Opening to the Outside World" was published on page 1 of JIEFANG RIBAO. On 2 March, JIEFANG RIBAO published another Huang Fuping editorial on page 1, this one titled, "Reform and Opening to the Outside World Requires New Thinking."

The first editorial was permeated with "the 60 year cyclical occurrence of the year of the ram." He called the period from the year of the ram of 12 years ago (1979) to the present year of the ram [1991] a cycle, and he maintained that 1991 "is a historical transition point."

His use of the term cycle refers to the 12-year cycle of animals, each representing a year in the Chinese astrology, and symbolizes the "re-initiation" of economic system reform. The exploration of new ways of thinking beyond the foundation of 12 years of economic reform since 1979 in a quest for new achievements is a "historical transition point" in Huang's view. Therefore, he shuns the old political slogan that the Beijing hardline faction shouts endlessly: "Without the Communist Party, there would be no New China" and favors the following pragmatic concept:

Reform and opening to the outside world is the only way to make the country strong and the people prosperous. Without reform, there can be no fine today or better tomorrow for the Chinese people!... Reform and opening to the outside world is a magic weapon that we cannot do without, even for a moment. Reform and opening to the outside world is the only way in which Shanghai can escape from its predicament and find prosperity.

The writer's intention was to turn around the superficial practice of shouting empty political slogans and shift social energies toward the deepening of reform to develop productivity. The author also presented the

"events of the 60 year cycle of the years of the ram." He went back through the tunnel of time to the beginning of a cycle 60 years ago, namely the year of the ram in 1931, which was the year the Japanese invaded China's three northeastern provinces and when the September 18 incident occurred [the Japanese seizure of Shenyang]. He said, "The blood, tears, and humiliation that engulfed the Chinese people" that year, "and the lessons resulting from corruption and backwardness to which they were to be subjected remain fresh in the mind to this day."

In raising this historical lesson, the writer did not dwell on the historical tragedy, but instead related it to the corruption of cadres and the economic backwardness of today, stirring heartfelt feelings for reform and development of the economy. This is similar to the feelings of the pre-4 June reform faction intellectual elite about the crises over the loss of their "global home" [qiuji 3808 4694]. He then discussed the next year of the ram in the 60 year cycle, 2051, when the per capita GNP is to be \$4,000 yuan.³ He believes that the next 60 year cycle will be "60 years of constant reform, exploration, development, and creation."

He called for "the need to raise even higher the banner of reform and opening to the outside world," "further emancipate thinking," "strike off the fetters of all sorts of stagnant forms of thinking," "dare to take risks, dare to be first in the world," and take paths that China's forefathers never took to become "lead rams" in reform and opening to the outside world, "and to bring about a brand new climate of public opinion for reform and opening to the outside world in Shanghai."

The 2 March commentary was an attack on the "ideological stagnation" of the hardline faction. It reiterated the need to "dare to take risks," and for "boldness in blazing new trails," developing new thinking about reform and opening to the outside world.

The new thinking to which the commentary referred was not to regard plans and the market as symbols of socialism and capitalism. Economic mechanisms have to be changed, foreign capital must be used courageously to promote the technological renovation of large- and medium-sized "state-owned enterprises," the emphasis in Shanghai should go to the development of tertiary industries, and Shanghai should become a commercial, financial, and information center. Zeroing in on the hardline faction, the commentary said quite unambiguously: "One should not treat various theses found in books as dogmas that bind one hand and foot." This so-called dogmatism refers to the Marxist "theory of surplus value."

The commentary once again touched upon the "ideological stagnation" crisis. It read:

Some comrades are accustomed to equating a planned economy with a socialist economy, and a market economy with capitalism, believing that some capitalist specter lurks behind market regulation.... In the new situation of deepening reform and increasing opening to

the outside world, we have to guard against becoming mired in new ideological stagnation.

When comparing this passage with the 1987 "anti-leftism" 13 May speech by Zhao Ziyang, one has an even greater sense of déjà vu. Zhao Ziyang said:

...Some people place a planned economy and a commodity economy in opposition to each other, believing a planned economy to be socialist, and a commodity economy to be capitalist. Thus, to develop a commodity economy is to practice capitalism, which is the fountain-head of bourgeois liberalization.

...Concepts that are divorced from reality and from life, and old, stagnant, and hardline points of view remain a fairly serious problem. They are still fettering the thinking of some of our comrades. In the total process of reform and opening to the outside world, we must constantly eliminate the influence of force of habit, and demolish antiquated, stagnant, and hardline ideas.⁴

Huang Fuping's commentary is not only "in the main" close to Zhao Ziyang's 13 May speech, but the background to its publication and the changes in the political situation also show points of similarity.

Table 1. Table Showing CPC Leading Cadres in Leading Shanghai Municipal party and Government Organs

Name	Age	Hometown	Education	Profession	Current Position	Former Positions Held
1. Zhu Rongji [2612 6954 1015]	63	Changsha, Hunan	Electrical Engineering Department, Qinghua University	O* Deputy Premier, State Council	Deputy Director, Economic Affairs Commission, Shanghai Mayor, Shanghai Municipal CPC Committee deputy secretary, and secretary	
2. Wu Bangguo [0702 6721 0948]	Feidong, Anhui	Radio Department, Qinghua University	Electronics Engineer	O*A*	Shanghai Municipal Instrument and Meter Bureau CPC Committee deputy secretary, and secretary of the Shanghai Municipal Science Committee	
3. Huang Ju [7806 5468]	53	Jiashan, Zhejiang	Electrical Engineering Department, Qinghua University	Electrical Engineer	O*A*B*	Director, First Mechanical and Electrical Industries Bureau, Secretary of the Shanghai Municipal CPC Committee and the Industrial Work Committee, and General Secretary of the Municipal CPC
4. Chen Zhili [7115 5267 4539]	48		Graduate Student, Silicate Research Institute	Deputy Research Fellow	A* Director, Propaganda Department, Municipal CPC Committee	Deputy Secretary, Silicate Institute CPC Committee, Deputy Secretary, and Secretary of the Municipal Science and Technology Committee CPC Committee
5. Yang Di [2799 1029]	67	Qingpu, Jiangsu	Primary School	Public Security staff member	A*	Director, Wuxi Municipal Public Security Bureau, Director Municipal Posts and Telecommunications Bureau, Municipal Public Security Bureau director and deputy director
6. Gu Chuanxun [7357 0278 6064]	56	Haiyan, Zhejiang	Chemical Engineering Department, East China Chemical Engineering Academy	Chemical Engineer	O*B*	Shanghai Petrochemical Main Plan Production Officer manager, deputy plant manager, and plant manager
7. Liu Zhenyuan [0491 2182 0337]	57	Pingxiang, Jiangxi	Deputy Doctor [sic] Jiangsu Academy of Sciences	Metallurgy Assistant Research Fellow	B*	Shanghai Metallurgy Institute Assistant Research Fellow, Director of Science and Technology Department, and Deputy Director of Institute
8. Ni Tianzeng [0242 11231 1073]	54	Jiashan, Zhejiang	Architecture Department, Qinghua University	Architectural Engineer	B*	Deputy Director Second Commerce Bureau, Secretary First Commerce Bureau, and secretary of Shanghai Municipal CPC Committee and Finance Committee

Table 1. Table Showing CPC Leading Cadres in Leading Shanghai Municipal party and Government Organs (Continued)

Name	Age	Hometown	Education	Profession	Current Position	Former Positions Held
9. Xie Lijuan [6200 7787 1227]	55	Wuxing, Zhejiang	Shanghai No 2 Hospital	Doctor-in- Charge	B*	Deputy Director Luwan Dis- trict Center Hospital, Deputy Director Luwan District
10. Zhuang Xiaotian [8368 2556 1131]	59	Zhenhai, Zhejiang	Middle School (?)	party Worker	B*	Deputy Director Second Commerce Bureau, Secretary First Commerce Bureau, and Secretary Municipal CPC Committee and Finance Committee
11. Ni Hongfu [0242 7703 4395]	58	Chuansha, Jiangsu	Primary School (?)	party Worker	B*	Chuansha County CPC Com- mittee Secretary; Chongming County CPC Committee Sec- retary, and Secretary of Municipal CPC Committee and Rural Work Committee
12. Wang Liping [3769 0500 1627]				party worker	Municipal CPC Committee Standing Committee Member, CPC Committee General Secretary	
13. Ye Gongqi [0673 0361 3823]	Wuxian, Jiangsu	Studied at Daxia Uni- versity	party worker	Chairman, Municipal People's Congress Standing Committee	Deputy Director Shanghai Municipal Light Industry Bureau, Shanghai Deputy Mayor	
14. Chen Tiedi [7115 6993 6611]	56	Changsha, Hunan	Architecture Department Tongji Uni- versity	Assistant Professor of Architecture	Deputy Chairman Municipal People's Congress Standing Committee	Municipal CPC Committee Standing Committee Member, Secretary of the Education and Health Work Committee
15. Chen Guodong [7115 0948 2767]	80	Nanchang, Jiangxi	Primary School	party Worker	Chairman Municipal Advi- sory Committee	Director Food Bureau, Director Supply and Mar- keting Cooperative, First Sec- retary Shanghai Municipal Committee

Note: The symbols O*, A*, and B* mean CPC Central Committee candidate member, Shanghai Municipal CPC Committee deputy secretary, and Shanghai deputy mayor respectively. The Silicate Institute means the Silicate Institute of the Shanghai Branch of the Chinese Academy of Sciences. Municipal means Shanghai Municipality.

Zhu Rongji, Wielding Authority, Talks Tough

After JIEFANG RIBAO published Huang Fuping's article, the hardline faction had CPC Central Committee Propaganda Department director Wang Renzhi [3769 0432 0037] conduct an investigation. However, after JIEFANG RIBAO explained that the Shanghai Municipal CPC Committee had provided the copy, Wang Renzhi backed off, realizing what he was up against.

The name Huang Fuping means "Huangpu Jiang Commentary," Huangpu Jiang being a pseudonym for the Shanghai Municipal CPC Committee writing group. In Chinese Communist political battles, "paper wars" in which each faction writes articles under pseudonyms are "standard" in policy debates and turf battles.⁵ Huang Fuping's commentary of 2 March was written on the basis of a speech that Zhu Rongji had made some time earlier. The "new thinking" that the article described was the ideas of Zhu Rongji and the Shanghai Municipal CPC Committee about developing a new situation in economic reform.

Zhao Ziyang's 13 May Speech of four years earlier was published after a report on work had been made to Deng Xiaoping. A little later, Deng Xiaoping also told some foreign guests that the main error at the beginning of 1957 was "leftism," a remark that seemed to support the 13 May Speech.⁶

Now when Zhu Rongji came out bravely to do battle with the hardline faction, he also held the magic weapon of authority in his hands. He had instructions from Deng Xiaoping, messages relayed through Yang Shangkun, and support from Jiang Zemin. In addition, Zhu Rongji expected to receive a notice from Deng Xiaoping informing him of his April promotion to deputy premier.

In a speech made at a 25 February New Year's get-together that Yang Shangkun attended in Shanghai, Yang praised the very great achievements made in work in Shanghai during the previous year, and he hoped to speed up the development and construction of the new Pudong district to "make Pudong get started faster, better, and more courageously."⁷

Yang Shangkun acts as "political housekeeper" for Deng Xiaoping. For a long time, the two have maintained a relationship based on "As long as you are in charge, I do not have to worry." Yang's Shanghai speech was actually a relay of the desires of Deng Xiaoping.

Furthermore, Deng Xiaoping himself also expressed a position about the controversy between a planned and market economy. According to a rumor circulating in Beijing, Deng Xiaoping said that the planned economy is not exclusive to socialism, nor is the market economy exclusive to capitalism. There should be no wrangling over the term "socialism" and the term "capitalism." Instead, productivity should be earnestly developed. This was another version of the "white cat, black cat thesis."

Even though Chinese Communist newspapers and periodicals did not publish Deng Xiaoping's "internal speech," there are quite a few indications that the rumor is highly credible. The first indication is that during the first 2 weeks of March, the inside front cover of the Beijing magazine LIAOWANG [OUTLOOK] contained a short article that said "Market regulation is not exclusive to capitalism."⁸

The second indication is that at a February discussion, Liu Guoguang [0491 0948 0342], who is the deputy director of the Academy of Social Sciences and an economist in the reform faction, said that changes in the economic system during the 1990s will require getting rid of the planned economic system in which market mechanisms are excluded and changing into planned commodity economy.⁹ These two points show that Huang Fuping's airing of the controversy over the planned economy and market economy was seemingly a relaying of Deng Xiaoping's ideas.

Besides Deng Xiaoping, in several recent conversations, both Secretary General Jiang Zemin and Politburo Standing Committee member Qiao Shi called on cadres to dedicate themselves to the development of productivity.¹⁰ In a discussion during the annual meeting of the NPC at the end of March, Jiang Zemin also specially emphasized that Deng Xiaoping was the main architect of economic reform.

In thinking about the Huang Fuping article, one finds that the words contained "overtones." They both demonstrate a solidification of Deng Xiaoping's patriarchal prestige and his role and position in guiding economic reform, and they also show that Deng intends to be more flexible about Marxism and the ushering in of a new situation in economic reform. He is also building a somewhat relaxed environment for the deepening of economic reform (relative to the one and one-half years following 4 June).

Deng Xiaoping has always maintained his patriarchal prestige through "two-handed tactics." Even though he raises both his "political left hand" and his "economic right hand," his political conservatism stands in opposition to and is not reconciled with his economic openness.

Consequently, the raising of his left or right hand shows his different priorities. Whenever the Politburo is fairly stable or the hardline faction "drags its feet" too much, he frequently raises his "economic right hand" somewhat higher. When the Politburo is not stable, or when the reform faction becomes so "open" as to lose control and be headed for turmoil, he may extend his "political left hand" much more.

The main premise underlying Deng Xiaoping's decisions is consolidation of the dictatorship of the Communist party (the so-called dictatorship of the proletariat), and the authoritative system of government founded on the patriarchal prestige ethic. Under this premise, the so-called "two-handed tactics" means changing or alternating between "striving for development during stability," and "striving for stability during development." This is the source of the sometimes "anti-leftist" and sometimes "anti-rightist" tilt in the political situation.

Precedents can be readily found for such tilts. In early 1987, Deng Xiaoping vented his displeasure over the campus unrest and Hu Yaobang's loss of control by removing Hu from his position as general secretary, and issuing an order to "criticize liberalization." Later on, however, the nucleus of the hardline faction, Peng Zhen, pressed forward step by step. Luckily the great forest fire in the northeast revealed the shortcomings of concern with political study while ignoring the development of productivity. Thus, Zhao Ziyang had an opportunity to remonstrate with Deng Xiaoping, urging him to come down on the side of changing from "anti-rightism" to "anti-leftism." This produced Zhao's 13 May Speech.¹¹

After 4 June, Deng Xiaoping was certainly very much aware about the interference with, or the halt or reversal of economic reform at many levels. Once the 4 June Incident was generally concluded, unruffled about economic reform, Deng Xiaoping realized that the hardline faction could not be further permitted to disturb the main economic reform plan, and he naturally wanted to make use of those having the daring to blaze new trails to move ahead with economic reform. This was the time when Zhu Rongji was vested with the magic weapon of authority. As a pioneer in economic reform who dared to take risks, Zhu Rongji "entered the inner circle" in April as a major player when Deng Xiaoping raised his "economic right hand" higher.¹²

The promotion of Zhu Rongji and Zou Jiahua [6760 1367 5478] to deputy premier and of Qian Qichen [6929 0366 3234] to membership in the State Council signified the re-emergence of the economic reform faction with Deng Xiaoping's support. Jiang Zemin's ocean faction has gradually become dominant over Li Peng's capital faction.

Reasons For the Shanghai Origins of the North-South War

The second "North-South War has to do with widespread and complex disputes over theory and policy. Because of space considerations, I will write a separate

article analyzing them. Once the "June 4th disturbances" had calmed down, how to shift the emphasis to the deepening of economic reform for the development of productivity was a matter about which the reform faction was extremely anxious. The ushering in of a new situation in the opening of the economy to the outside world was even more an opportunity not to be lost. The reform faction's expectations and Deng Xiaoping's desire for rapid economic reform combined, resulting in a war in which the ocean faction bombarded the "ideological stagnation" of the capital faction.¹³

That the second "North-South War" originated in Shanghai is not surprising. The most important reasons were two.

First, Shanghai's leaders had a very strong sense of crisis about the city's economic backwardness, and a strong sense of mission about the vigorous development of the economy. During the 1930s and 1940s, Shanghai had been an important commercial and financial center in the Far East; however, during the intervening 40 years, Shanghai had fallen far behind its neighboring Pacific cities. Not only had it lost its progressive role in the international economic realm, but municipal government construction, particularly its "arrears" in housing, transportation, and telecommunications were becoming increasingly great. The people grumbled a lot about this.

Shanghai's GNP ranked at the forefront in the Chinese mainland, but under the command of the planned economy, it "turned over to the central government" too much in profits and taxes. Under the uniform policy of "assisting the entire country," Shanghai was not able to keep enough money to improve the municipal government and renovate enterprises. Ever since 1985, when Jiang Zemin took charge of Shanghai's party and government work, Shanghai had won greater fiscal and local political autonomy, and more of the money that the government had retained was returned to the municipal government and enterprises to make up for the "arrears." After becoming Shanghai Municipal CPC Committee secretary and concurrently mayor in 1989, Zhu Rongji was more strongly inclined to "repay the arrears." He convinced the central government to reduce the amount that the municipality paid the central government, to institute all-around housing reform, and to go in for large-scale construction to increase the supply of housing. This was the first step taken to get the central government to institute a "tilted policy" toward Shanghai.

The second reason is that the age, education, and professionalism of Shanghai's party and government leaders are better than for any other province or municipality. (See the above table). The leadership is made up largely of fairly young, high level engineers who have a lot of professional knowledge about industry and the economy, and who also have much experience gained in out-of-country surveys. They have the idealism and the vitality needed to break new ground.

They have an especially strong sense of responsibility about changing Shanghai's backward state to take part in the international commercial and financial system. Thus, they wish to deepen economic reform and develop a new situation in opening the economy to the outside world, particularly the development of Pudong to spur Shanghai's economy toward an external orientation, and to become a center for "further initiation" of economic reform.¹⁴

In addition, in comparison to the Beijing Municipal CPC Committee, the Shanghai Municipal CPC Committee has been fairly enlightened in recent years. When Rui Xingwen became its secretary in 1985, Shanghai was very enthusiastic about exploring ideas for reform. Not only did it come up with the policy of developing Pudong and land leasing, it also conducted large-scale discussion of cultural development tactics, which caused quite a stir at the time. Just before and after 4 June 1989, Zhu Rongji put into effect the "Shanghai experience" in which worker pickets persuaded demonstrating students to withdraw, thereby avoiding bloody incidents. After 4 June, Shanghai also tried only an extremely small number of people who had engaged in the civil disturbances and purged only an extremely small number of intellectuals. This demonstrated that the methods that Zhu Rongji and the Shanghai Municipal CPC Committee, as well as behind-the-scenes supporter Jiang Zemin used for dealing with social clashes were fairly moderate.

When Deng Xiaoping made up his mind to prevent a halt or a regression of economic reform, Shanghai naturally became both the source and "public opinion" center for the "re-initiation of the deepening of economic reform."

The Tilt Toward Shanghai and Market Value Standards

The second "North-South War" will continue for a period of time during which setbacks are bound to occur. Nevertheless, Shanghai's revolt against the hardline faction has already demonstrated that the mainland's political and economic atmosphere is gradually changing. At least the space for economic reform has been somewhat widened.

The ocean faction's first victory was Deng Xiaoping's agreement to institute a "tilted policy" toward Shanghai.¹⁵

Shanghai will now become a center for the diffusion of economic reform and opening of the economy to the outside world during the 1990s. The "tilted policy" toward Shanghai consists of a financial tilt—a reduction in sums that Shanghai pays to the state, allowing it fairly broad fiscal room for improving enterprises' facilities and for the municipal government to establish a foundation for the building of an international commercial center. It also permits the Pudong development plan to get underway, permitting a tilted policy in fundraising that would enable the bold importation of foreign capital, and the sale of land-use rights in Pudong under the

"separation of two authorities" [liang quan fenli 0357 2938 0433 4418]. The opening up of Pudong has set off a "second tide of opening to the outside world" in east China.¹⁶

Shanghai is to take the place of five special economic zones, becoming the center for the pioneering of a new situation in the opening of the economy to the outside world.

Another victory for the reform faction was the market orientation of the pattern of economic development: The economy must operate in accordance with the market laws of value. The market may not be regarded as an outgrowth of the capitalist system, which repudiates the regulatory role of the market.

Huang Fuping's commentary of 2 March said: "Plans and the market are simply two techniques for, and two forms of resources allocation; they are not symbols that distinguish socialism and capitalism. ...this is another major emancipation of our thinking about issues pertaining to the socialist commodity economy."

This so-called another major "emancipation of thinking" might also be termed the establishment of a "market value standard." In 1978, the mark of the "emancipation of thinking" was the establishment of "practice standards." In 1987, the 13th CPC Central Committee proposed "productivity standards." These were yet another symbol of the "emancipation of thinking."

The argument about plan and market shows that the ocean faction—the economic reform faction broadly speaking—plans to reform the Stalinist model of the planned economy, and tends toward a Bukharin model.¹⁷ Everything possible is to be done to replace the commands of the planned economy with greater use of guidance plans to realize macroeconomic regulation and control, for a large scale increase in regulation by the market. Bukharin's idea was that not only should market methods primarily advance the development of productivity (market orientation), but they should correspondingly make government more transparent and more democratic, and make culture more diverse. The hard-line faction is exerting utmost efforts to block the change of the planned economy to a Bukharin model.

In areas and sectors in which the reform faction holds sway during the present stage, the operations of the economy will gradually shift toward the Bukharin model.¹⁸ The deepening of economic reform can bring about some advances, and it can also create a somewhat more relaxed political atmosphere in which the purge of intellectuals is halted. However, control of political ideology all over the mainland cannot be weakened within a short period of time. A relaxed atmosphere of ideological exploration such as existed from the time of the 13th party congress until the spring of 1989 cannot come about. Starting democratic political system reform will be difficult.

(Written on 1 April 1991).

Footnotes

1. Concerning Yao Wenyan's article, "A Review of Historical Drama, *The Dismissal of Hai Rui*, *Xin Zongguo Jishi* [2450 0022 0948 4764 0057 *History of New China*] has the following explanation: This article was first plotted by Jiang Qing and Zhang Chunqiao in Shanghai in early 1965, and Yao Wenyan did the actual writing. Without notifying the central politburo, Mao Zedong gave permission to publish this article and waited to see if it would be reprinted in various national papers. At the time, because the secretariat of the Chinese Communist Party Central Committee adopted a prudent policy, it only until 30 November that this article was reprinted in *PEOPLE'S DAILY*, along with comments revised by Zhou Enlai. It was also emphasized then that his article should be used as a subject for academic discussion. Some of the comments were as follows: "The views on *Hai Rui* and *The Dismissal of Hai Rui* in reality involve the question of how to treat historical personages and historical drama, and what kind of viewpoint to use when researching history. These views also involve questions of how to use artistic methods to reflect historical personages and historical events. We hope, through this debate, that differing opinions and criticism will further develop. Our policy is to allow others the freedom to criticize and to counter-criticize. We will use reason, seek the truth, and convince people with reasoning." After the publication of Yao Wenyan's article, there were few positive responses to it. Yet there were many negative opinions expressed by those who opposed it. Under the direct manipulation of Jiang Qing, Zhang Chunqiao and Yao Wenyan, Wenhui Rao launched "The Big Debate" about Yao Wenyan. This was the prelude and blasting fuse for the Great Cultural Revolution.

2. From 8 through 15 December 1965, Mao Zedong held an enlarged meeting of the CPC Central Committee Politburo in Shanghai at which he exposed and criticized Lo Ruijing, then secretary of the CPC Central Committee Secretariat, general secretary of the Central Military Affairs Committee, and chief of general staff, whom he stripped of official duties. In February 1966, Jiang Qing convened an armed forces forum on literature and art at which political purges in literature and arts circles were planned. After Chen Boda and Zhang Chunqiao wrote the minutes of the forum, Mao Zedong revised the final draft. On 10 April, Mao issued these minutes in the name of the CPC Central Committee in a demonstration of his decision to begin the "Cultural Revolution."

3. According to a Chinese Communist Statistical Bureau communique, GNP for 1990 was 1,521 yuan renminbi per capita. At an "official exchange rate" of 1 to 5.22, this amounts to \$291. During the same year, GNP in Taiwan was close to \$8,000 per capita, and in both Hong Kong and Singapore, it was more than \$10,000. By 2051, GNP in Hong Kong, Taiwan, and Singapore will be more than \$25,000.

4. The original title of Zhao Ziyang's "13 May Speech" was "Speech to a Meeting of Propaganda, Theory, News, and Party School Cadres" (13 May 1987). CHAO LIU issue No. 31 of September 1989 carried the complete text under the title, "Criticism of Bourgeois Liberalization Not Being Able to 'Force a Breakthrough in Document No.4.'"

5. In Chinese Communist political battles, the two opposing factions usually control a writing group's attacks on the opponent. During the early 1970's, the "Liangxiao" (the pseudonym for writers groups at Beijing University and Qinghua University), which Jiang Qing controlled, were the writers groups that blasted the Zhou Enlai, Deng Xiaoping, Ye Jianying, and Li Xian-nian faction.

6. Please refer to Ding Wang: "The First Round in the Fight Between Zhao Ziyang and the Hardline Faction," CHAO LIU, Issue No 31, September 1989.

7. See "Getting Started Faster, Better, and More Courageously at Pudong," JIEFANG RIBAO, 16 February 1991, page 1, Shanghai.

8. Read Bao Xin's [7637 0207]: "Major Changes in China's Economic System," LIAOWANG Magazine, Overseas issue, No. 9, 4 March 1991. Beijing.

9. See LIAOWANG, Overseas edition, Issues 7 and 8, February 1991, p 19.

10. See (1) Zhao Derun [6392 1795 3387], "Act To Develop Social Productivity Vigorously Centering Around Economic Construction," JIEFANG RIBAO, 13 February 1991; (2) Liu Siyang [0491 1835 2254]: "Use Marxist Theory To Study New Situations and New Problems," GUANGMING RIBAO, 3 March 1991, Beijing.

11. Same as Footnote 7.

12. In May 1989, after Zhao Ziyang was successful in persuading Deng Xiaoping to change from "anti-rightism" to "anti-leftism," the economic reform faction scored a major victory in the allocation of authority during the October 13th party Congress and the First Plenary Session of the 13th party Central Committee. Qiao Shi and Hu Qili became new Politburo Standing Committee members; thus the Central Committee Secretariat was composed of Hu Qili, Qiao Shi, Rui Xingwen, Yan Mingfu [7051 2494 1788], and Wen Jiabao [3306 1367 1405] (a secretariat candidate member). Rui had been promoted from secretary of the Shanghai Municipal CPC Committee. Following "4 June" 1989, Zhao, as well as Hu, Rui, and Yan all stepped down.

In April 1991, Zhu Rongji entered the inner circle at the behest of Deng Xiaoping who wanted to give more impetus to economic reform forces in the State Council. This was similar to the reorganization of power by the 13th CPC Committee following changes in the Politburo in May 1991.

13. Jiang Zemin became the Central Committee General Secretary after 4 June 1989 and promoted an "ocean faction." Included in this faction were Zeng Qinghong, formerly deputy director of the CPC Central Committee General Office, and Chen Jinhua, formerly Deputy Mayor of Shanghai Municipality and who was promoted to chairman of the State Commission for Restructuring the Economy. In addition, a group of reform-minded cadres associated with Zhao Ziyang kept their posts because of Jiang Zemin's employment of them or because of Deng Xiaoping's protection.

14. See (1) Rui Xingwen: "Shanghai's Position, Role and Main Problems It Faces," SHIJIE JINGJI DAOBAO [WORLD ECONOMIC BULLETIN], 21 September 1987, Shanghai; (2) Ge Daxing [5514 1129 2502]: Key Ideas That Rui Xingwen Urges To Hasten and Deepen Shanghai's Reform in Unswerving Building of an Externally Oriented Economic Pattern," LIAOWANG, 24 September 1990.

15. See Bao Xin: Pertinent State Policy Tilt Toward Shanghai," LIAOWANG, No. 31, 30 July 1990.

16. See: (1) Gu Yuxiang [7357 3768 4382]: "The Development of Pudong Stimulates the Second Tide of Opening to the Outside World in East China," JIEFANG RIBAO, 9 August 1990; and (2) Xiong Xingquan [3574 1840 0538]: "Heartening Situation in the Southern Jiangxi Reform Experimental Zone," JIEFANG RIBAO, 28 January 1991.

17. For the difference between the Stalin model and the Bukharin model, please see Bao Shenggang's [7637 4141 6921] "Alternating Cycle of the Stalin Model and the Bukharin Model," CHAO LIU, No 49, March 1991.

18. Shanghai and the East China region have gone far in the opening of free markets for agricultural and livestock foods, reviving the traditional free markets in rice at Anqing in Anhui, Wuxi in Jiangsu, and Jiujiang in Jiangxi.

Biographical Data on Zou Jiahua, Zou's Father

91CM0422A Hong Kong KUANG CHIAO CHING
[WIDE ANGLE] in Chinese
No 223, 16 Apr 91 pp 60-62

[Article by Kuang Lingke (6782 7325 3784): "On Zou Jiahua's Early Education by his Father"]

[Text] Zou Jiahua [6760 1367 5478] and Ye Xuanping [0673 6693 1627], who are related (they are brothers-in-law, Zou Jiahua being married to Ye Chumei [0673 2806 2734], Ye Xuanping's sister), were both given new appointments at the latest meeting of the NPC. Zou Jiahua became a vice premier of the State Council, while Ye Xuanping was made vice chairman of the CPPCC.

With his appointment as vice premier, Zou Jiahua's past became an object of interest to the press. His family

background, including the way he was tutored by his father, Zou Taofen [6760 7290 1164], is also a topic of interest to readers.

As a Child, Zou Jiahua Lives and Attends School in Hong Kong

During the war of resistance against the Japanese, Zou Jiahua stayed in Hong Kong with his parents and attended Pei Cheng Middle School. His father founded SHENGHUO, a weekly, and SHENGHUO RIBAO in Hong Kong.

The Zous, A Talented Family

Zou Jiahua's father, Zou Taofen, was originally named Enrun [1869 3387] and was given the pet name Yinshu [5593 2579] as a child. Family members called him Shushu. He adopted the pen name Taofen after he became chief editor of SHENGHUO, a weekly publication. Zou Taofen was born on 5 November 1895 (19 September in Year 21 of the reign of Emperor Guangxu). Although his ancestral home was Shatang Village in Yujiang County, Jiangxi Province, he was actually born in Yong'an County, Fujian Province, where his father Zou Guozhen [6760 0948 3791] was working in the county salt department. Zou Taofen's mother was a native of Haining in Zhejiang. Her maiden name was Cha.

Zou Taofen was the oldest of six children. He had two brothers, who were, in order, Enyong [1869 3144] and Enji [1869 3444], and three sisters, Enmin [1869 2404], Enjun [1869 0193], and one who died as a child. Second brother Enyong, whose pet name was Shishi, was exceptionally talented and studied civil engineering. He later studied in the U.S. and, after returning home, devoted himself to urban construction and became quite successful. The Shanghai waterworks and the Huanhu Park at Baihuazhou in Nanjing were both designed by him. It was Enjun, his second sister, who was at his bedside during the time he when he was seriously ill in Shanghai. She has been working in the Tianchu Monosodium Glutamate Plant ever since the 1950's. Her husband is a professor at Shanghai Institute of Chemical Industry.

Zou Jiahua Stays in Shanghai With His Father for Medical Treatment

About Zou Taofen's stay in Shanghai for medical treatment, Zou Enjun once recalled, "The CPC Central Committee showed the utmost solicitude for my oldest brother. The original plan was for him to go to Yan'an. After hearing Chen Yi's [7115 3015] earnest advice as conveyed by Su Yu [4725 5940] while in the northern Jiangsu liberated area, however, he changed his mind. In Chen Lao Zhong's opinion, Older Brother was seriously ill. (The original diagnosis was a middle ear infection. Only later did we find that he had a brain tumor.) Lacking both doctors and medicine, the health care situation in Yan'an was poor. Moreover, the roads were not safe at all. It was better not to go there. What about

remaining in northern Jiangsu? The Japanese were carrying out frequent mopping-up operations, which did nothing to help the search for medical treatment. That is why going to Shanghai, which offered the best medical treatment at the time, was a sound idea. Besides, I was then staying in Shanghai, so he had a relative to take care of him. But getting to Shanghai was no easy feat. Since he was being hunted by both the Japanese bandits and the KMT authorities, we had no choice but have him change his name to 'Ji Jinqing' [1323 2516 0615]." She said, "On the so-called 'good citizen card' in the enemy-occupied area at the time, he listed his occupation as general merchant. After he arrived in Shanghai, Chen Lao Zhong suggested to the CPC Central Committee that a person be sent to Beiping with 200,000 yuan to hire a doctor. Unfortunately, the doctor was arrested on the eve of his departure."

Zou Taofen's first wife was Ye Fuqiong [0673 1788 8825], a lady from a well-educated family. The elders of the two families had strong ties of friendship and wanted their children to marry one another. Zou Taofen, however, had been attending school away from home all these years and had never met the girl, let alone get to know her. He objected to his parents' attempt to arrange a marriage for him and refused to go home to get married. What he did was quite common among young people after the May 4 movement. Informed of his decision, Miss Ye said that she would wait for him all her life. The impasse lasted several years. Miss Ye still would not change her mind, which began to give Taofen second thoughts. If he stuck to his guns, he reasoned, he would be sacrificing a woman for nothing. He could not bring himself to do that, so he voluntarily returned home to marry her. After they got married, however, they became good friends. It is like Juexin meeting Ruijue. He was almost sorry they had not met sooner. She was sincere, honest, and magnanimous, and looked after him with meticulous care, which made Taofen feel rather guilty for having treated her so coldly before he got a chance to know her and made her suffer all those years for his sake. Unfortunately this good woman was not destined to share many years of happiness with him. Within two years of their marriage, she died from typhoid fever. In the days following her death, Zou Taofen behaved as if he were out of his mind. He would frequently wake up crying and run to where the coffin was, crying his heart out beside it.

Zou Taofen later remarried. His wife, Shen Cuizhen [3088 4733 4903], is an outstanding woman in modern Chinese history. She is a former leader of the Chinese Welfare Association and the women's federation of Shanghai. She was also a close personal friend of Song Qingling [1345 1987 7881]. She met Zou Taofen while he was setting up his weekly, SHENGHUO. Theirs was entirely a marriage of love. She bore him three children, one of them being Zou Jiahua. Shen Cuizhen is still living today, sharing an apartment on Huaihai Road in Shanghai with her daughter, Jiali [0857 7537]. She is an affable and genial person who speaks coherently and

steadily and has a sense of humor. She speaks Putonghua with a slight Suzhou accent. Now and then she would liven up a conversation by chipping in with a phrase or two in the Suzhou dialect, which would cause everyone to burst out laughing.

Shen Cuizhen was a loyal companion to Zou Taofen in his career, as well as a good wife and mother. They were married in January 1926 and lived together for less than 19 years. In that period which cannot be considered very long, Zou Taofen was jailed once and exiled six times, the first time alone lasting two years and a month, followed by eight and a half months in jail. Add the other times when he was on the run and you can count on the fingers of your hand the number of years that they really spent time together. But Shen Cuizhen did not complain at all. On the contrary, she put national interests before everything else and supported Zou Taofen and helped him in his work wholeheartedly. She dutifully took up the heavy responsibility of running the household and raising the children. Never did she utter a word of complaint about living on the run. She once said to Taofen, "As they say, 'adversity brings out true feelings.' In marrying you, all I ask is that we help each other in difficulties. The flower of our love is nurtured by the water of adversity."

How Zou Taofen Guided Zou Jiahua

In educating his children, Zou Taofen never imposed his own desires on them. He would always fully consider their own interests and let things take their natural course. Because of his brilliant achievements in the field of literature, it was only natural that he would like his children to carry on. He had particularly high hopes for his oldest son, Jiahua. As a child, Jiahua had a special interest in playing with machines; he would take the toys

apart and put them back again. There were times when the whole house was littered with things, like a grocery store. Concerned that this might affect Taofen's work, Shen Cuizhen would get angry and wanted to spank Zou Jiahua to teach him a lesson. At this point Zou Taofen would play the role of peacemaker and say with a laugh, "Never mind. He is only a child. Do not limit his interests. Let things take their natural course. Back then Father sent me to Nanyang Public School, hoping that I would become an engineer. But unlike Brother Shi (that is, Enyong,) I had no real interest in mathematics or physics. In the end, didn't I switch to literature and bury the dream of becoming an engineer? Since he likes machines so much, let us develop his interest in that field. Do not make him take a long detour, like me."

This is why Zou Taofen later wrote in his will that "my oldest Son Jiahua [0859 7520], that is, Jiahua [0857 5478], specializes in mechanical engineering." He did this after fully considering his son's interests and consulting with him. (Jiahua was already 18 years old at the time and was by his side.) As for second son, Jialiu [0857 7511], (now renamed Zou Jingmeng [4552 5536] and currently director of the Chinese Meteorological Bureau and alternate member of the CPC Central Committee), his father wrote in his will that he should "study medicine." Jialiu was still very small at the time and was not by his side. (Zou Taofen had been sent to Yan'an by the Eighth Route Army Office, arranged by Zhou Enlai.) Afflicted with a terminal disease and long failing to respond to treatment, Zou Taofen hoped that one of his children would devote himself to medicine and contribute to mankind by curing the sick and healing the wounded. Perhaps influenced by her father, Jiali, the youngest daughter, has had an interest in literature from an early age. Thus professionally she was the one who followed in her father's footsteps.

NATIONAL AFFAIRS, POLICY

Major Economic Problems, Countermeasures

91CE0446A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 9, 4 Mar 91
pp 10-12

[Article by Ch'un Ming (2504 2494): "Secret Worries Behind Stability—Analysis of Macroeconomic Movement, Policy Operation in China in 1990"]

[Text] *The situation in China's macroeconomic movement in 1990 can be summarized in this way: The total volume of the movement was basically stable, but adjustment of structure still awaited further reform. What I mean by a basic stability in the total volume of the movement is that in this year the downturn in China's economic growth that began in 1989 was basically halted, a certain rate of growth was obtained, and a further slide of the total volume of the economy into a deep trough was avoided. Besides being manifested in the overall growth of agriculture—an annual growth of 5 percent—this stability was prominently manifested in a steady turn for the better in industrial production. Compared with 1989, industrial production accelerated each quarter: in the first quarter it was basically level, in the second quarter it grew 4.1 percent, in the third quarter it grew 5 percent, and in the fourth quarter it grew as high as 14.2 percent. In the entire year the gross output value of industry at the level of township and above was 1.9486 trillion yuan, a 6 percent growth, calculated at comparable prices, over that of the year before; if industry at the village level and below is included, the growth was 7 percent, which exceeded the plan's norm. However, at a deeper level contradictions of a structural nature were still extremely serious, and in this year the anticipated substantial progress in structural adjustment was not achieved.*

Serious Problem of Structure

The problem of structure, reflected in the structure of industrial growth, was the lag in the growth of the main part of industry and the serious imbalance in regional growth. The growth in industrial production was mainly brought about by the high-speed growth of township-town industry, which is gradually recovering its former vitality, and of other types of industry, with the main part being the three kinds of enterprises that are either partially or wholly foreign-owned. Industry owned by the whole people, which accounts for 65 percent or more of the output value, only grew 1.5 percent. In regional structure, growth was fairly fast only in the coastal regions. In most of the provinces, with the three northeastern provinces constituting the main part of the basic industries, a low or negative growth could not be avoided.

The problem of structure, reflected in the exciting cause for industrial growth, was that it was impossible to solve thoroughly the problem of the market slump and the overstocking of finished industrial products. It can be said that industrial growth in 1990 mainly depended on

increased investment made possible by bank loans and other funds. For the entire year the total value of retail sales of commodities is estimated to be 825 billion yuan (in renminbi, the same below), a growth of only 2 percent. By the end of November, the value of the stocks of finished products produced by industrial enterprises at the county level and above had increased by 45.1 billion yuan compared to the value of these stocks at the beginning of the year; for the entire year the funds of industrial finished products taken up by overstocking increased to more than 100 billion yuan. In all the months in which the growth of industrial production was fairly rapid, there was a correspondingly large increase in the amount of loans. For example, in June and September, when industrial growth was fairly rapid, the increases in the amount of loans were respectively 23.07 billion and 47.2 billion yuan, and in the period from October to December, the increase was more than 130 billion yuan, a monthly average increase of over 40 billion yuan.

The problem of structure was reflected in the effect on growth, i.e., the pickup in economic returns and the pickup in the rate of industrial production were clearly out of step. From January to November, within the budget the actual profits tax fell 18.8 percent compared with that in the same period of the previous year; enterprise losses doubled; comparable product costs rose 6.5 percent; and the turnover days for the quota circulating fund were extended to 130 from the 108 in the same period of the previous year, taking up about 50 billion yuan more in funds.

Old Contradiction—Excessively Large Total Demand, Insufficient Effective Demand

Total demand was still in a state of expansion, and the danger of stagflation grew. According to the State Statistical Bureau's preliminary analysis, in the situation of society's total supply and demand in 1990, the total demand was excessively large, with the differential rate being 4.2 percent; if the factor of the fairly rapid growth in foreign demand is deducted, the differential rate between supply and demand was 3.1 percent. For the reason of stimulating the economy, the growth of bank loans was excessively rapid. At the end of November, bank loans had increased by 212.5 billion yuan as compared to the figure at the beginning of the year, a 17.1 percent growth, not only exceeding the 185 billion yuan level for the entire year of 1989, but also predicted to exceed the total size of economic growth and price rises. In the entire year the net amount of currency put into circulation (the amount of new currency in circulation) was about 30 billion yuan, approximately 9 billion yuan more than was put in during the previous year. In addition, in the later stage investment in fixed assets was expanded as a stimulus, and there was an excessive number of new industrial projects, which caused a further expansion in the scale of projects under construction and which exacerbated the danger of expansion of total demand.

Effective demand is still insufficient, and the market slump will continue. Even if there was an enormous increase in the amount of bank loans, and investment in fixed assets was beginning to expand, there has not yet been an effective transformation of the expanded total demand into an effective demand that can be turned into product value on the market. More of the bank loans are converted to circulating funds and do not go into the effective social funds cycle. According to statistics, of the new loans, 76 percent were working capital loans, and the greater part of the bank loans were used for producing finished products and for sending out commodities. In addition, some loans were also used for paying wages and bonuses; these loans only forced up consumption demand and could not play their proper role in stimulating production. In the consumption aspect, even if there was a fairly large growth in people's income in 1990—the total value of the wages of all staff and workers in China was about 296 billion yuan, a growth of 13 percent, and if the price factor is deducted, this still represents a real growth of 11.7 percent. Due to the effect of psychological anticipation, the drop in consumption was much bigger than the 0.1 percent drop in 1989, being 8.9 percent.

In the final analysis, the source of the excessively large total demand and the insufficient effective demand—this pair of contradictions that have existed side by side for a long time—is still a problem of structure. As long as the contradictions in structure are not resolved, there is the possibility that the market slump will continue. If it is mandated that the effective demand be expanded by means of large-scale expansion of total demand—for example, a large addition to the scale of investment in fixed assets—then serious inflation is bound to follow, because this expansion can only be achieved by issuing more currency.

Limits Set by "Stability First" Policy

The fundamental reason that in 1990 basic stability could only be maintained in the total volume of the economy, and the contradictions at a deeper level that were restraining economic movement could not be resolved, was that, in order to maintain social stability, the tendency of the macroeconomic policy itself to put particular stress on preventing a downturn in the growth rate was excessively large, and did not thoroughly resolve the contradictions in structure.

An analysis of the economic situation in 1990 shows that a latent pressure in total demand and a market slump existed side by side, the long-term expansion of total demand had not changed, and the solution of the problem of the market slump could not force the market to take off. We must pay attention to the contradictions in structure that are behind the surface phenomena, and, under the premise of maintaining a suitable entrenchment in the total amount, focus on adjusting the industrial structure, so that total demand of the currency's purchasing power is transformed even more into effective demand on the market, and at the same time, by

rationalizing the structure, solve the problem of market slump. This means that substantial progress must be made, within a short period of time, in the adjustment of the industrial structure, in which adjustment of the structure's storage capacity must be made primary. However, because the adjustment of the storage capacity touches on the enterprise system, it demands that property rights be transferred. A certain cost must be paid, including the cost of natural resources, staff and worker unemployment, and other problems, which can be effectively handled during the process of furthering reform. Obviously, there is a certain contradiction between this and the policy of putting stability first.

Measures for Stimulating the Economy in 1990

Loosening of the money market and increase in the amount of bank loans. In 1988 bank loans increased 153.8 billion yuan, a 17 percent growth; in 1989 they increased 185.8 billion yuan, a 17.6 percent growth; and in 1990 they increased 273.1 billion yuan, a 22 percent growth, exceeding the rates of growth in each of the two previous years. Of these increases, that of circulating fund loans was 142 billion yuan, a 21.5 percent growth, in 1988; 147.2 billion yuan, an 18.7 growth, in 1989; and 209.6 billion yuan, a 22 percent growth, in 1990.

The two major adjustments, in April and August, of the interest rates on bank deposits and loans, greatly lowered interest rates. Of them, the interest rate on deposits fell 1.55 percentage points, and the interest rate on loans fell 3.2 percentage points. Because of consumer anticipation, the effect of the adjustment of the interest rate on deposits was small. In 1990 the remaining sum of deposits was 703.4 million yuan, an addition of 188.7 million yuan and a growth of 36.7 percent. Because there were fairly many enterprise loans, the downward adjustment of the interest rate was an utterly inadequate measure for lightening the burden on enterprises.

Expansion of the scale of investment in fixed assets. In 1988, the investment in the fixed assets of the entire society was 446 billion yuan. In 1989 this investment was held down to about 400 billion yuan, a drop of 11 percent, with the real working amount dropping about 20 percent. In 1990 the originally planned 410 billion yuan was supplemented by an amount that brought it up to 455 billion yuan, and the increase in investment mainly began to depend on bank loans beginning in July; the growth rate for the next two quarters was more than 20 percent.

Adjustment of prices. In 1990 a total of 19 prices were adjusted, and the total amount of money involved was about 60 billion yuan, constituting a fairly large adjustment in recent years. It was mainly a case of making a little upward adjustment of the prices of agricultural and sideline products and basic industry prices; with the market restrictions there was little change in the prices of the products of backward processing industries. However, because contradictions in the price aspect had been piling up for a long time, this price adjustment, which

was still just fine tuning, could not very quickly obtain results in smoothing out the price system.

Promotion of export. The successive adjustments of the exchange rate vigorously promoted the growth of export by enterprises. In 1990 the total value of exports was estimated at \$58 billion, a \$6.5 billion net increase compared with that of the previous year and a 10.5 percent growth; of it, export of industrial products increased \$5.5 billion, entailing about \$32 billion in output value. Even so, in the economy of a large country in which domestic demand is given priority, the growth in export could only alleviate the market slump but could not solve this problem.

Increase in income of staff and workers, and appropriate loosening of the buying power of social groups. In 1990 the average wages of staff and workers was 2,140 yuan, an 11.3 percent growth; if the price factor is deducted, the real rate of growth was still 7.1 percent. At the same time the buying power of social groups was correspondingly loosened.

Viewed comprehensively, China's real economic policy in 1990 was, in fact, a change from a situation in which there was a double tightening on finance and banking to a situation in which one of them was loosened and other remained tight. The banking policy became quite loose. Measures were taken in the income distribution policy to stimulate market demand. The problem was that these measures basically expand expanded society's total demand in extension, but were not very successful in adjusting the structure and turning the greater part of total demand into effective demand.

"Midway Island Effect" and "Hard Gap Effect"

From a look at the results of the adjustment of the structure, we see that, under the restraints of the current system, it is difficult for the macroeconomic policy to play an effective role on the structural level, and that the policy's total amount and the structural effect are asymmetric.

The reasons for the emergence of this contradictory situation is that China's reform is not being carried out in an irregular, flexible manner, and the reform is now at a "midway island." The "midway island effect" is prominently manifested in: the movement of the economy in which each main part of the economy tries, though cracks in the system, to gain advantages from both sides; and in the behavioral patterns of the new system strives to gain its own interests while using the principles of behavior under the old system to evade responsibility. On the one hand the enterprises have definite interests and motives and the capability for pursuing their interests; on the other hand, they still can recline on the state's body and "eat out of one big pot," in periods of expansion investing impetuously and strongly, and in periods of retrenchment being unwilling to bear the necessary costs, so that responsibilities, rights, and interests become quite out of line with each other.

At the same time, at the "midway island" of reform, not only have the mechanisms for interests not been thoroughly implemented, and it is also difficult for market signals to effectively guide the adjustment of the structural reserves; but also the structure of the relationship between the center, the locality, and the enterprise is irrational, and it is likewise difficult to effectively carry out the optimum redeployment of resource reserves by means of plans and administrative measures. The macroeconomic regulation and control by the center is seriously out of order. The central government shoulders the heavy responsibility of keeping in equilibrium the total amount and the structure, but lost the authority to exert effective control over the principal investments in the mainstream of economic movement.

Therefore, in the adjustment of the amount of increases, the guidance and indirect control of investment by local governments and many enterprises cannot effectively play their roles, and it is likewise impossible to insure that the scattered investments will be of help in optimizing the macro distribution of resources. On the contrary, the localities and enterprises have effectively used the "hard gap transformation" to oppose control by the central government, i.e., during economic expansion the spontaneous investment was concentrated on the light and processing industries, and investments in "hard gaps," such as the basic industries, was left to the center. In recent years the center's financial deficit for years in succession caused bank overdrafts and then touched off credit expansion, all of which must be said to be related to the need to fill these "hard gaps." This "hard gap transformation" causes the localities and the enterprises, without violating the demands of the center's policy, to cleverly steer clear of macro regulation and control. To depend solely on a proportional drop in the center's financial resources to develop basic industries is far from adequate. For this reason in recent years the proportion of the center's financial investment in basic industries has always risen, and for this reason the development of basic industries has always lagged behind the development of processing industries.

During economic retrenchment and adjustment of the amount of reserves, the center lacks to means to achieve structural improvement while controlling the total amount. Because the relationship of property rights has not been smoothed out, no matter how good or bad the enterprise, the demand for "equal survivability" during retrenchment is a "hard gap," and the survival of the enterprise is maintained by the state only by the infusion of circulating fund loans. At the same time, under the present system in which the government and the enterprise are not separated, the locality's interests and motives have become seriously separated, which also blocks progress in structural adjustment.

Monetary Policy Encounters "Circulation Trap"

From a look at the results of stimulating production and markets, we see that, during the market slump, in which irrationality of structure is a feature, the monetary policy

encounters what Western economics calls a "circulation trap," in which the results of the expansionist monetary policy on stimulating the economy are diminished. This monetary "circulation trap," which appears in a period of economic depression, is manifested in the West by a bias toward circulation in the way the wealthy handle their wealth. However, in China, which has initially broken the "one big pot" of income but has not yet been able to touch the "one big pot" of property, it is manifested more in "soft" restraints on bank credits and loans.

Seeking speed by increasing reserves, the enterprises had an "unlimited demand" for circulating fund loans. Provided there is no change in the relationship between supply and demand on the market, a condition for the pursuit of speed must be an increase in reserves. During this process, the banks' circulating fund loans become a substitute for society's effective demand. However, this is essentially an intermediate demand and not a final demand. Thus it is ineffective and also puts the enterprise in a situation of operating with high debts, which makes the interest burden heavier.

With funds being tight in the enterprise a bias toward circulation is produced, and the mutually tied knot of triangular debts is hard to untie. The situation in which the more triangular debts are settled the more there are of them is also related to the circulation bias of the enterprise during a period of tight funds. Even if they have the money to do so, many enterprises are unwilling to repay their debts, and more of them are replacing repayment with goods-in-kind credit. The practice on the part of many enterprises of issuing commodities receivable bills has grown sharply. There are too many funds for settling accounts, a situation that makes the triangular debts heavier.

The effect of the consumer's psychological expectation during a market slump reduces his tendency to consume, and, under the conditions in which interest rates are still pegged at a certain level, the amount of savings increases. This kind of savings, the cost for which is relatively high, in reality is a manifestation of the "circulation trap." For the consumer, wealth still possesses a fairly high nature of circulation; for the bank, on the one hand, there is an unlimited demand for loans and, on the other hand, funds must still be blended at a fairly high cost.

Because of this "circulation trap" the effect of the monetary policy on the stimulating production and markets is seriously limited. The policy in 1990 of mainly depending on bank loans to stimulate production and markets was not successful enough. This policy alleviated the contradictions, but at a heavy price. Finances now face pressure from two sides: in the enterprise the continued existence of an unlimited demand for bank credit; and credit expansion. In 1991 it is obviously undesirable to again give priority to bank loan stimulation

Countermeasure: Turn on Water To Raise Fish, Don't Drain the Pond To Get All the Fish.

It is generally thought that, in a period of relative economic depression, an expansionist financial policy can be fairly effective. Then, why in the past was financial expansion used at yearend to stimulate the economy?

Because of the changes in the pattern of national income distribution since the reform began, the proportion of financial income in the national income has constantly fallen, and it has been impossible to make correspondingly adequate changes in the financial work style and in the financial mission. Thus, in recent years the financial situation has been grim because of deficits in successive years, and so it has been difficult to expand financial expenditure in order to stimulate the economy. In 1990, because of the drop in enterprise economic returns, it was difficult to balance normal financial income and expenditure. In 1991 finances will continue to face a grim situation. Does this mean that an expansionist financial policy will still be difficult to achieve, and that, for stimulating the economy, an expansionist monetary policy, the efficacy of which is obviously very poor, can only continue to be adopted? Not so. In fact, it should be recognized that two modes exist in financial expansion: extensive and intensive. Extensive expansion, while expanding the effective demand, also expands the total demand, for example, the government's increased expenditure through the method of bank overdrafts. However, intensive financial expansion changes the deposit part of the total demand, and, under the condition of controlling the total amount, increases the effective demand. For example, the government can increase its expenditure by issuing bonds. What is more important is to encourage investment by enterprises and by society and to promote economic vitality, for example, enhancing enterprise vitality by reducing taxes and yielding rights and by lightening the burden on enterprises. This is likewise the essential meaning of an expansionist financial policy. Especially at the current stage in China in which there is movement on a dual track, the enterprise's motive for investment is not determined by the market's interest rate and other signals, but is determined by the controls of the government's economic policies. Encouraging the enterprise to raise money for its own investments and enhancing the enterprise's vitality have become even more the essential parts of financial expansion.

1991 Market Forecast

*91CE0444A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 10,
11 Mar 91 pp 14-15*

[Article by Liu Yung-Ch'iang (491 3057 1730): "Chinese Market Forecast for 1991; Leaving Depths of Slump, Good Things Ahead"]

[Text] *There will be faster market recovery than in second half of 1990, mainly because social commodity purchasing power will rise; price levels are expected to rise; consumer psychology gradually is normalizing; and adherence to market cycle fluctuation laws. However, it will still take time to fully reverse the market slump.*

Current State of Chinese Market

Two main characteristics emerge from the current state of China's market recovery.

1. Uneven recovery of market sales. Considering China overall, in some areas recovery is swift, but in other areas there is slow growth, or even a continued slump.

Considered in geographical terms, markets in the three areas of eastern, central, and western China clearly differ. Recovery in the markets of eastern and western China is rather swift. In the entire year of 1990, eastern China saw retail sales of social commodities to the tune of 436.6 billion yuan (all figures in RMB), 2.8 percent growth over 1989. For western China, the figure was 123.3 billion yuan, up 2.5 percent. For central China, the figure was 236.6 billion yuan, basically the same as in 1989. Statistics for the entire year of 1990 show that there still were 10 provinces, municipalities, and autonomous regions for which the social commodity retail sales growth rate was near zero or negative. Five of these areas were in the east: Liaoning's rate was only one percent; Zhejiang, 0.7 percent; Shanghai, -1.2 percent; Fujian, -1.8 percent; and Hainan, -3.8 percent. Four of the areas were in central China: Jiangxi's rate was only 0.9 percent; Hunan, 0.3 percent; Anwei, zero; and Hubei, -12.1 percent. In the entire year of 1990, the only place that showed a double-digit growth rate for social commodity retail sales was Beijing (15 percent). Among the five other areas that has rather high growth rates, four are in the west, namely, Qinghai, 8.1 percent; Xinjiang, 6.9 percent; Ningxia, 6.6 percent, and Shaanxi, six percent. The fifth, Shanxi province, at 6.2 percent, is in central China.

Various factors account for the uneven market recovery in different areas of China. By and large, they are related to an area's industrial mix, economic base, economic strength, and the income levels, consumption levels, and consumption habits of the citizenry.

Regarding urban and rural differences, rural markets have yet to pull out of the slump since rural purchasing power is still weak. Social commodity retail sales volume growth in rural areas still is far below that of urban areas.

Three main factors account for the clear differences in retail sales recovery between urban and rural areas:

(1) *Income growth rates for peasants are slower than for city residents.* In 1989, the first year since economic readjustment, the per capita net income of rural residents grew 10.38 percent over 1988, which was 7.42 percent lower than the 17.8 percent rise in the social

commodity retail sales price index for that year. Conversely, in the same year, city dwellers average per capita income grew 16.42 percent over 1988, just slightly lower than the rise in the retail sales price index. Considering the first half of 1990, the per capita cash income of rural residents only rose 1.7 percent over the same period of 1989. When price rises are subtracted, their actual income dropped four percent. For city residents during the same period, however, per capita income (per capita living expense income) rose 7.8 percent, far above price rises. It is obvious that the income growth of city residents consistently is higher than that of peasants. This is one major factor for the great difference between the recoveries in urban and rural sales.

(2) *Peasants carry heavier burdens than city dwellers, which disperses a certain portion of their consumption funds.* In recent years, prices of agricultural production materials have risen continuously, while prices of grain and other main agricultural and sideline products have not at all kept up with them. This has exacerbated the burden on peasants. Conversely, urban residents have faced much less pressures in price rises. In China, fiscal subsidies for material prices increase every year at an enormous rate, but the majority of subsidies go to rural residents not engaged in agriculture.

(3) *Urban and rural residents consume in different ways.* Surveys show that at present the consumption sequence for peasants is as follows: First, purchases of agricultural production materials; second, housing; third, expenses for weddings and funerals; and last of all, consideration of daily living items. Therefore, it is unavoidable that the rural consumption retail sales market starts lag behind that of urban areas.

2. **Overall sales beginning to rebound; there are both booms and slumps, stability and shortages.** Another notable characteristic of the present market is that the nationwide slump is turning into a structural sales motivator. Sales of rationally priced items suited to the market are gradually becoming brisk. Not all of these hot-selling items are of high quality and grade. On the contrary, they are items suited to different consumption levels and grades of consumption. In terms of price, they are acceptable to consumers at different income levels.

However, because the gap among income levels of the citizenry in recent years has grown continuously, those with high incomes have begun to seek various high grade products. Furthermore, a certain portion of the items for which there was a rush to buy in 1988 included refrigerators, washing machines, furniture, and other durables. This gave the wrong signal to enterprises, many of which neglected to do R&D on medium- and low-grade products; they blindly produced a large quantity of high quality products. In a certain sense, products unsuited to the market and sluggish circulation were the main causes of the market slump. At present, commodities on the market are either too many or too few, or else they are relatively in short supply. The so-called slow sales and accumulated stocks are there largely because

some are poor in quality but high in price, out of sync in terms of value and price, or unsuited to market demand.

Chinese Market Trends

In 1991, the overall trends in the Chinese market are: although the market slump is climbing out of its low point and the rate of market recovery will be faster than in the latter half of 1990, it still has a way to go before reaching normal rates. According to tentative forecasts, in 1991 the total volume of retail sales of social commodities will grow around 11 percent, higher than the 2 percent rate of 1990.

1. Social commodity purchasing power will rise. This will be seen in:

Due to the nationwide readjustment of wages by fiscal and business units, one enterprise after another also began to readjust them as of the end of 1990, so incomes of urban residents will rise. Throughout 1990, wages and other personal outlays will increase around 12 percent over 1989. Nationwide, worker wages will grow around 7 percent overall. In 1991, there will be a great reduction in the number of enterprises that entirely or partially stop work or cease production, and incomes of workers in enterprises will continue to increase because industrial production will recover gradually. It is tentatively forecast that in 1991 worker wages will increase by about 10 percent overall.

Peasant cash incomes will rise. In 1990, agriculture had bumper harvests throughout the year. It is estimated that the total agricultural output value grew by 5 percent over 1989. Grain output reached 860 billion jin, up 5.5 percent over the great harvest of 1989. Cotton output was 83 million tons, up 10 percent over 1989. Upon this basis, the state at the same time appropriately readjusted the procurement prices of agricultural and sideline products. It also issued measures for grain storage, set up a grain reserve bureau, and established a grain reserve fund that will ensure the stability of grain prices on the market and increase peasant incomes. According to estimates, in 1990 income peasants earned from agricultural and nonagricultural production rose about six percent over 1989. In 1991, gross peasant incomes will grow by about 9 percent over 1989.

Purchasing power of social groups up. Since the second quarter of 1990, the state has continuously relaxed restrictions on some specially controlled commodities, thereby causing the growth rate of purchasing power by social groups to recover. From June to November of 1990, the figure for accumulated group retail sales consumption rose 9.2 percent over the same period in 1989, which is far greater than the rate of recovery of citizen retail consumer sales. It is forecast that in 1991, demand for social group purchasing consumption will be around 14 percent, higher than the 6 percent level of 1990, and still more rapid than the rate of the total volume for social commodity retail sales.

Demand for investment gradually recovering, directly and indirectly increasing consumption demand. Since the second half of 1990, when the state appropriately readjusted retrenchment, there has been a gradual improvement in the rate of investments on fixed assets owned by the whole people. The rate grew by approximately 8.3 percent in 1990 over 1989. It is tentatively forecast that there will be 13 percent growth in 1991 over 1990. Reckoning that investment will convert into 40 percent consumption, the converted consumption demand will increase by more than 21 billion yuan (RMB, same throughout) over 1988. Proven data shows that investment in fixed assets is reflected in the market after a two to three month lag. The higher investment in the latter half of 1990 will clearly show up as increased market demand in the first quarter of 1991.

2. Material price levels expected to rise.

There is a very close relationship between market slump or boom and whether material prices fall or increase. Generally speaking, when prices are stable or fall, people save and hold off on purchases. The tendency to buy when prices are inflated and hold off when prices fall is rather strong. Thus, consumers have little desire to buy. Conversely, when prices are expected to rise, people may increase their purchases or even rush out to buy. The two different market occurrences of a rush to buy in 1988 and the slump in 1989-90 are the result of the public's different expectations of prices.

The price index has risen since the fourth quarter of 1990. In 1991, the pressure of rising prices will be clearly greater than in 1990: (1) Since 1990, the state and localities have continued to come out with price readjustments. According to expert calculations, in 1990 price readjustments affected 1991 prices by about 4 percentage points. (2) Bank loans are gradually expanding. Beginning in the fourth quarter of 1990, financing actually began to be relaxed. In 1990 new bank loans amounted to about 270 billion yuan, and the amount of cash issued was approximately 30 billion yuan. This will put a good deal of pressure upon price inflation in 1991. (3) As retrenchment is relaxed, slow approval of new construction projects will end, and capital construction will speed up. (4) Because newly higher priced products in 1990 were mainly concentrated in industrial products for daily use, food products, and civil products closely connected to the daily lives of consumers, consumers are increasingly willing to accept price adjustments. After a year of price falls, the masses will have stronger sensitivity to price rises, and thus accordingly buy more.

3. Consumption psychology gradually normalizing.

Besides eliminating the aforementioned consumer expectations of lower prices, another factor causing people to return to normal in their consumer behavior was the lower savings interest rates offered by banks in April and August 1990 (approximately 3.1 percentage points). Since interest rates fell successively, people

earned less interest on their savings and thus the high growth of savings seen since 1989 has normalized. People used more of their income for consumption. In addition, besides the durable consumer goods that people rushed to buy in 1988, most of the rest of the other commodities have been sold out, which is good for a normalization of purchasing in 1991, as it will increase the proportion of immediate consumption.

4. Adherence to the law of cyclical market fluctuations.

According to the predictions of those concerned, China's consumer market has a high-low cyclical fluctuating law. In general, there is a peak about every four years. In 1990 China's market was just at the low point between the two peaks of August 1988 and August 1992. At present the market is crawling out of its slump. It is at the stage of moving from a low point to a normal rise.

However, it will take time to fully reverse the slump. It will be hard to see a boom in 1991, mainly because:

In 1989-90, China's downward market fluctuation exceeded the rise. The rhythm of China's economy is rather slow. It stays in slumps a relatively long time, and in 1991 one will still be seen. There is still a way to go to spur on the market.

In 1991, there will be little change in peoples' consumption psychology. Considering China's actual present conditions, to make people change their consumption psychology would require the following conditions: (1) fairly large price reform measures; (2) continued lower interest rates on savings of large scale; (3) a serious shortage of commodities, especially essentials for daily life; (4) a money supply greatly exceeding the normal volume of demand for economic growth. Because the Chinese Government undertakes cautious policies, it is estimated that the aforementioned conditions would not occur. Therefore, there will be no major change in the peoples' consumption psychology.

Overall, prices will still be rather high, to a certain degree constraining increased consumption.

As stated previously, higher prices may encourage purchasing but they are also a factor constraining buying. In 1990 the rate of increase of the social commodity retail sales price index in China was approximately two percent, lower than the 17.8 percent rate of 1989. The inflation rate was clearly lower, but this was a fall from the higher base rates of 1988 and 1989. The absolute levels of most commodity prices were not low, or else they were merely a fall from previous overly high prices. Looking at the pure price index, clearcut currency inflation really is gone, but present price levels have merely dropped from high levels. Actually, compared to other countries, China still has a moderate inflation rate that could become double-digit or more inflation at any time. It just does not appear particularly clear under market slump conditions. It is precisely because prices overall are still quite high that consumption is somewhat constrained.

Li Yining on Reform Under Unbalanced Economy

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[Article by Li Yining (0632 0110 1337): "Reform Under an Unbalanced Economy"]

[Excerpts] 1. The Reality of Economic Imbalance

[passage omitted] In the Chinese economy, the market is deficient, access to what little information there is is limited, prices are rigid, and the supply of resources is restricted. In other words, the Chinese economy is an unbalanced economy.

The unbalanced nature of the economy imparts the following characteristics to economic operations.

First, since the market is deficient and access to what incomplete information there is is limited, microeconomic units cannot get hold of sufficient information in a timely way. Within the limited information that does exist, some is incorrect. Thus microeconomic units are forced to decide what resources to invest and in what proportion, guided by limited, even erroneous, information. The result is a narrow profit margin and an allocation of social resources that does not meet the standards of efficiency

Second, price inflexibility, that is, price rigidity, limits the extent to which resource allocation by microeconomic units can be readjusted. This is why. Rigid prices do not reflect resource scarcity or the return on resource investment, making it impossible for a microeconomic unit to combine resources in an optimal way. And when microeconomic units cannot utilize resources by combining them optimally, this means that in society as a whole resources would inevitably be wasted or idled in the course of allocation.

Third, because of the limits on resource supply and on demand, resources must be allocated to give priority to goods in demand when there is an imbalance between supply and demand. As far as the microeconomic unit is concerned, this in effect means intensified competition. To put it differently, when supply is limited, the microeconomic at the demand end is confronted with the problem of limited resources and has no alternative but to expend more energy so as to obtain the necessary supplies. And when demand is limited, the microeconomic unit, as a supplier, is confronted with the problem of a shrinking market and has no choice but to expend more energy to make a sale. Given limited supply and limited demand, the microeconomic unit has to work harder to secure resources and make a sale. For society as a whole, this is a case of the abnormal use of resources, that is, an imbalance in resource allocation.

Can the working of the market and spontaneous regulation by prices be relied on to end inefficient resource allocation? Clearly the market cannot solve these problems, hemmed in as it is by limits on resource supply. The limitations of the market in an unbalanced economy

are not something that can be overlooked. The result is quotas. The official quota system can narrow the supply-demand gap in an unbalanced economy.

Government quotas can be carried out in accordance with the principle of objective, the average principle, or the principle of historical proportion. Each principle has its own appropriate area of application and its own share of drawbacks. Thus what principle to apply under what set of circumstances must be decided in light of the actual conditions. [passage omitted]

2. The Significance of Differentiating Between Two Kinds of Economic Imbalance

It is certainly important for the student of Chinese economic reform to differentiate between economic balance and economic imbalance and to realize that the economy is currently in a state of imbalance. But that is not enough. We need to go one step further and distinguish between two types of economic imbalance and identify the current state of economic imbalance in China as the second type. Only by doing so can we better understand the procedures and goals of economic reform in China.

It is nothing new in economics to differentiate between the balanced economies from the unbalanced ones. That idea has been analyzed by economists, both Chinese and foreign. In my book *The Unbalanced Chinese Economy* (published by JINGJI RIBAO Chubanshe), I argue that there are two kinds of economic imbalance and proceed to analyze socialist economics along that line.

Microeconomic units can be divided into two categories, those that are full of vitality and those that are not, including some which have no vitality at all. Some microeconomic units are full of vitality because they have decision-making authority in their operations, are accountable for their own profits and losses, are free to choose investment opportunities and methods of production and allocate after-tax profits in accordance with their own interests, and assume the risks that go with investment and being in business. This kind of enterprise is an independent commodity producer and operator. If a microeconomic unit does not meet such requirements, it certainly will not be full of vitality or may completely lack any vitality at all.

In a balanced economy, microeconomic units no doubt will be full of vitality, forming the basis for a perfect market. What needs to be analyzed is this: In an unbalanced economy, must microeconomic units lack full energy? To explain this point, we need to differentiate between two kinds of economic imbalance.

In the first type of unbalanced economy, the market is defective, prices are not flexible, and excess demand coexists with excess supply, as do demand restraint and supply restraint. Yet the microeconomic units that participate in market activities are independent commodity producers that have decision-making authority and are accountable for their own profits and losses. They are

free to choose investment opportunities and methods of operations. They also assume the risk of investment and operation.

In the second type of unbalanced economy, the market is imperfect and prices are not flexible, but, even more importantly, the microeconomic units taking part in market activities are not independent commodity producers that have decision-making authority and are responsible for their own profits and losses. They are not free to choose investment opportunities or methods of operation. Nor do they assume the risks of investing or doing business. This kind of microeconomic unit has not shed its status as the appendage of the administrative machinery.

Neither of the two conditions (perfect market and flexible prices as well as microeconomic units bursting with vitality) that must be met before the market can self-restrain in the resource allocation process obtain in the second type of unbalanced economy. As a result, the ability of the market to self-restrain is severely compromised. This can be looked at in two ways:

On the one hand, microeconomic units lack vitality mainly because they have not yet become major entities with their own interests. The results of their operations are not directly and inevitably related to their interests. Nor do these units stand to lose economically when errors are made in production or investment. These microeconomic units feel neither driven and motivated nor pressured and responsible. There are occasions when it is clearly in their economic self-interest as well as the interest of improving the efficiency of social resource allocation for them to make a move, but they may well remain indifferent and not condescend to do something. There are also occasions when it is clear that it would not be in their economic self-interest and might actually lower the efficacy of the allocation of social resources if they make a certain move, but such units may do it anyway, perhaps even with alacrity. The self-restraint of the market is helpless in the face of such apathy on the part of microeconomic units toward efficient resource allocation. Under these circumstances, therefore, we cannot even begin to talk about regulating the investment and utilization of resources using the criterion of efficiency.

On the other hand, however, microeconomic units lack full energy not merely because they have no concern or do not have enough concern for the balance sheet. Instead they are hemmed in by administrative departments in every aspect of production and operations. Microeconomic units must operate in accordance with orders from administrative departments. Some microeconomic units concern themselves with the balance sheet and would like to adjust their investment focus and method of resource utilization in accordance with their own interests. However, the fact that they are an appendage of the administrative machinery determines that they cannot operate in accordance with their own wishes and their own interests. Thus the self-restraining

role of the market cannot come into play in resource allocation. Even if resource allocation becomes even less rational and less efficient, the market is not in a position to correct it.

We have explained from the two perspectives above that it is very hard to bring out the self-restraining role of the market in the process of resource allocation. And this is precisely where the first type of unbalanced economy differs so strikingly from the second. In the first type of unbalanced economy, the self-restraining function of the market is somewhat compromised, but it does exist and it works. In the second type, however, the market mechanism does not quite work as it should to check inefficient investment. For example, when there is an under-investment of resources, when resources are not combined in a sound manner, or when resources are being utilized in a less and less efficient manner, the market is not in a position to correct them. Or even if the market sends out warning signals (widening supply-demand gaps in some types of resources, declining economic results, sharp swings in prices, etc.), microeconomic units may not receive these signals. Even when they receive these signals, they may not be able to or even refuse to readjust their resource investment focus and methods of combining their resources. Thus imbalances in resource allocation continue and become worse and worse.

What about government regulation and government quotas? Is their operation seriously hampered in the second type of unbalanced economy? The answer is yes. Microeconomic units lacking energy are not able to receive signals sent out by the market and adjust their resource allocation accordingly. Nor are they able to change resource allocation and utilization in accordance with the signals of government regulation. More than anything else, this demonstrates what is wrong with macroeconomic units. [passage omitted]

The ineffectiveness of the market mechanism and the declining efficacy of government regulatory measures necessarily make the imbalances in resource allocation in the second type of unbalanced economy even worse, causing the economy to deteriorate and forcing the government to intervene in the economy with noneconomic methods to correct unbalanced resource allocation. This kind of nonmarket restraint (often called "correction" and "policy adjustment") is common government intervention in the second type of unbalanced economy. It needs to be pointed out that government in this context refers to the highest policy-making authorities. Only when the highest policy-making authorities realize the seriousness of the problem of unbalanced resource allocation and are resolved to "correct" it or "adjust their policy" would they resort to the nonmarket method of reversing the unbalanced allocation of resources. By the time the seriousness of the problem is realized by the highest authorities, it is certain that a considerable period of time has elapsed and equally certain that the resultant economic losses are severe.

The question is how the highest policy-making authorities proceed to "correct" it. If they still fail to realize that it is the second type of economic imbalance (that is, imperfect market, rigid prices, and microeconomic units devoid of vitality) that causes imbalances in resource allocation to occur as well as to worsen over time and instead hope to solve the problem through some sort of noneconomic intervention, then all they would accomplish is to narrow the supply-demand gap for a while only to prolong and complicate the problem of unbalanced resource allocation. The result is that after a while, another round of "correction" and another round of "policy adjustment" become necessary. The longer the problem remains uncorrected and the worse it gets, the greater the resistance becomes and the more difficult and less effective "correction" gets.

Hence we can imagine this scenario: Sustained economic dislocation will force the microeconomic unit to find a way out on its own. In other words, in its own interests (or in the interests of its employees), a microeconomic unit will find a way out through exchange activities. Many such exchange activities are underground exchange activities. To put it differently, there will develop a black market. In a black market, some microeconomic units will pay a much higher price in order to carry out exchanges favorable to themselves, further distorting resource allocation. Such a development is entirely possible in the second type of unbalanced economy.

3. The Two Stages In Chinese Reform

Through the above analysis, we realize the following:

1) Since the Chinese economy is currently an unbalanced economy, there are necessarily severe constraints on the operation of the market. At a time when the market is imperfect, information is less than complete and access to it is restricted, prices are inflexible, and supply of resources is limited, the market may narrow the gap between supply and demand somewhat, but cannot totally close it. Hence the quota issue; that is, the issue of bringing supply and demand in line with one another through the use of quotas.

2) The Chinese economy is currently in the second type of imbalance. That is, the market is imperfect and enterprises lack vitality. That being the case, even if the government takes economic regulatory measures, their effects cannot but be undercut to a great extent. Thus a continued deterioration in resource allocation becomes all but unavoidable.

The current state of the Chinese economy has profound implications for determining which approach to take in economic reform. In other words, the serious dislocation in resource allocation makes the government appreciate the need for economic structural reform, particularly the need to fully vitalize microeconomic units through economic structural reform. The government should take effective measures to help microeconomic units end their status as appendages of the administrative

machinery to put pressure on them externally and help them develop an internal drive and be interested in their own profits and losses. At the same time, the government should take appropriate macroeconomic regulatory steps to gradually correct the imbalance in resource allocation so that the market can fulfil its self-restraining mission. Only through these reforms can we gradually put together a dual mechanism—market regulation and government regulation—in the economy and improve resource allocation.

Analyzing the above reform philosophy from a high theoretical plane, we can draw the following three conclusions about economic structural reform in China today:

First, it must be realized that the Chinese economy is not in the first type of imbalance, characterized mainly by an imperfect market, but in the second type, characterized mainly by enterprises lacking full vitality as well as an imperfect market. Therefore, economic structural reform must make enterprise structural reform its first line of attack. In other words, it should make the full vitalization of enterprises its top priority and, through this, change the Chinese economy from the second type of unbalanced economy into the first type before finally replacing the unbalanced economy with what approximates a balanced economy. In other words, Chinese economic reform should consist of two stages. In the first stage, we move the economy away from the second type of imbalance to the first type. In the second stage, we try to reduce the imbalance to a minimum through reform.

Second, suppose we do not make enterprise structural reform the centerpiece of economic structural reform but persist in price decontrol even before enterprises are fully revitalized. In that case, we not only will fail to produce any positive results, but will on the contrary worsen the economy and exacerbate the imbalance in resource allocation. The reason is very clear. As explained above, there are deep conflicts between government regulation and market regulation in the second kind of unbalanced economy. Distorted government regulation is entangled with distorted market regulation, further eroding economic efficiency.

Third, in view of the unbalanced nature of the economy, particularly the characteristics of the second type of unbalanced economy, the reform of the macroeconomic management system today should focus on improving the self-restraining mechanism of the market in resource allocation and easing the conflict between market regulation and government regulation in the course of economic operations. If we fail to reform the macroeconomic management system along these lines, the transition of the Chinese economy from the second type of imbalance to the first would necessarily be impeded and the resource gap and market gap in the Chinese economy would necessarily widen. This is why. As long as the enterprise does not have decision-making authority and is not responsible for its own profits and

losses, government regulation would have limited success in closing the resource gap or market gap. Since the enterprise, a party to any exchange, cannot adjust its own supply and demand in accordance with its own interests, government quotas are not likely to do the job. If economic management measures of the government cannot do much to mobilize the enthusiasm of the enterprise or guide it to adjust its supply and demand on its own in accordance with its own interests and instead narrow the resource gap by simply cutting back on demand or balance supply and demand temporarily through direct investment and direct distribution, then the Chinese economy would linger in the second type of economic imbalance.

Government quotas cannot be eliminated throughout the course of economic reform. When there is a shortage of resources necessitating government quotas, we need to pay attention to both economic growth and structural industrial adjustment without dampening the enthusiasm of enterprises or lowering their resource utilization efficiency. Regardless of which principle the government uses to determine quotas—the objective principle (that is, in order of the importance of the various industrial sectors), the average principle, or the historical proportion principle, it must be scientific. Only when we work out the quotas scientifically can we minimize the errors that government quotas may cause. Second, regardless of which principle is used, the loss of scarce resources should be prevented; that is, a sector or department must not be allowed to resell to other sectors the scarce resources it is allocated. What we can do at the present stage is to combine the three principles to bring about quota balance under government regulation. Of the three principles, the objective principle has the greatest potential of achieving the anticipated goals of industrial structural adjustment, the principle of historical proportion has the greatest potential of maintaining economic growth without causing sharp swings in the economic growth rate, and the average principle has the greatest potential of minimizing conflicts between supply and demand and not hurting the initiative of enterprises. That being the case, in order to fully utilize government quotas in an unbalanced economy, we could do worse by stressing the objective principle while taking into consideration the special features of the principle of historical proportion and the principle of average, in order to come up with a comprehensive principle for the allocation of scarce resources.

Having said that, we must not overlook the importance of the enterprise as the principal investor even as we implement government quotas. When we say that the enterprise is the principal investor, we mean, first of all, that the enterprise should be free to choose the focus of investment based on its own interests and decide on its own which areas should receive more investment and which should receive less, thereby influencing the proportion of output between the sectors. Second, the enterprise should be free to adjust the input-output ratio in accordance with its own interests; that is, it should be

free to reduce inputs and increase output by improving efficiency. Only by letting the enterprise become a major player with its own interests can we strongly motivate the enterprise to increase output by improving efficiency. At a time when resources are scarce and inputs are limited by objective factors, this presents a more rational approach to overcoming certain commodity shortages. From another perspective, the fact that the enterprise is a major investor also means that the enterprise is a major buyer and consumer of capital goods. When the enterprise regulates its investment direction and the combination of capital goods, it also influences the sales of products of other enterprises by adjusting its demand for capital goods. In so doing, it also objectively influences the output of some industrial sectors and helps determine the direction of adjustment of the industrial structure. As a major player with its own interests, therefore, the enterprise influences the adjustment of the industrial structure both through its own inputs (including the amount of inputs and the input-output ratio) and through its own purchases of the products made by other enterprises. In the final analysis, the economic growth rate is determined by the output increase rate of each and every single enterprise. Since the output growth rate of an enterprise is invariably actualized in the process of adjusting the industrial structure, economic growth and industrial structural adjustment are one and the same process. At the same time as it participates in economic growth in a major way, the enterprise, with its independent interests, also becomes a major participant in industrial structural adjustment.

Let us further consider this: If economic reform in China does not follow this philosophy and does not differentiate between the two stages of reform, what would be the consequence? We can state categorically that if enterprises do not end their status as appendages to the administrative machinery and still lack the restraint of interest and remain unable to choose investment opportunities based on their real and anticipated interests, they will not be able to respond to changes in supply-demand ratio on the market. So problems will be allowed to pile up until the government realizes their serious nature. Only then will something be done to correct them. But by then a long time will have elapsed, during which time the national economy will have suffered severe losses. Not only that, but, devoid of interest-restraining mechanisms, enterprises may have used scarce resources to develop products not badly needed by the market or used scarce resources to engage in profit-making activities of a nonproductive nature. Such practices would worsen the irrationalities in the industrial structure and make scarce materials even scarcer. Suppose the government blames price irrationalities for all these problems and then proceeds to deregulate prices in an attempt to correct the serious imbalances in the industrial structure and eliminate the slack in supply and the lag in demand, only to cause further economic chaos. The crux of the matter is that enterprises that still lack decision-making authority in their operations and are not held accountable for their own profits and losses

cannot become major entities with their own interests that can really help eliminate shortages and adjust the industrial structure.

Finally, let us sum up the basic argument of this article. Economic balance is a purely hypothetical notion. In the economy in the real world, what we have is the second type of economic imbalance. If we do not first solve the problem of enterprises lacking decision-making authority and not being held accountable for their own profits and losses, then the development of the socialist economy would be badly hampered. This explains the urgency of enterprise structural reform and the importance of fully vitalizing the socialist enterprise. It is not only impossible for Chinese economic reform to sidestep the issue of the enterprise becoming a major entity with its own interests, but any delay in this reform will retard economic development as a whole. The longer this drags on, the higher the price we will have to pay.

PROVINCIAL

Prospects for Guangdong's Price Reform in 1990's

91CE0553A Beijing JIAGE LILUN YU SHIJIAN
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[Article by Wen Wuhan (2429 2976 3352): "Prospects for Guangdong's Price Reform in the 1990's"]

[Text] During its practical execution of the reform, Guangdong Province has effectively passed through three stages, from "integrating price regulation with deregulation; integrating deregulation with regulation, in which deregulation predominates; and then developing a combination of deregulation, regulation, and state supervision." However, price reform is far from being accomplished. It still remains an arduous task of the 1990's, especially for the period of the Eighth Five-Year Plan.

I. The Present Price Situation in Guangdong Province

(a) The Price Structure

The reform has by now already brought about great changes in the price structure, and the new overall situation is one in which there coexist three kinds of prices: state-set prices, state-guided prices, and market-regulated prices. Roughly calculated, 60 percent of all the present retail prices are market-regulated prices, about 25 percent are state-guided prices, and 15 percent are state-set prices. In the total range of means of production, 55 percent are priced at market-regulated prices, the proportion of state-guided prices is about 25 percent, and that of state-set prices 20 percent. By types of commodities, among the 118 types of agricultural prices that in pre-reform times had been fixed by the provincial or central authorities, prices for grain procurements and sales within the plan are still fixed by the state; state-guided prices are in force for comparatively important items, such as sugar cane, hemp, tobacco, tea, silkworm

cocoons, and timber, while all other prices have been deregulated, so that market-regulated prices in the various markets in question are being charged. As to the 370 types of commodities for industrial consumption, for which prices had formerly been fixed by the provincial or central authorities, their number is now down to a small range of important items: namely, salt, cotton yarn, plastic raw materials, wood pulp, newsprint, and agricultural plastic sheets. For approximately 60 additional items, state-guided prices apply, and the rest of the prices are deregulated. For approximately 1,400 types of means of production, for which formerly the provincial and central authorities had fixed prices, prices at least 300 items have been deregulated, leaving now only approximately 1,100; however, a double-track price system generally applies in their cases. Communication and transportation charges, charges for real estate, and fees charged for administrative services are still controlled by the state according to graded systems.

II. The Pricing System

Through reform, the pricing system in Guangdong Province is presently in the process of being straightened out. The price scissors between industrial and agricultural products have been narrowed.

(a) Agricultural products: The original prices were severely to the disadvantage of the peasants. Excepting grain prices for procurement and sales within the plan, which are still inordinately low and by this fact constitute an obstacle to grain production, all price relations are being straightened out.

(b) Industrial products: Formerly, prices for primary products, such as mineral products and raw and semi-finished materials, were low and yielded little profit, while prices for products of the light and textile industries were high and yielded much profit. This price relationship has already been adjusted, and except for the coal and electric power industries, the development in all the other industries is at present one toward a general straightening out of prices.

(c) Circulation prices: Formerly, domestic commerce used a pricing system which applied a unified rate of sales commission, and for many important commodities there was a unified retail price, without regard for regional, urban-rural, quality, and seasonal differences, and the obstruction that this irrational pricing caused in commodity circulation was a very prominent problem. In the reform, the pricing method was generally developed toward greater evenness. Prices were gradually differentiated according to quality differences and seasonal differences. The pricing method in materials circulation was also changed from the traditional product economy, with its "expenditure to be offset by income, and the balancing of income and expenditure" to a system of "rational computation of expenses and rational profits." In the wake of the progressing structural reform of foreign trade, the relation of domestic prices to overseas prices has also been changed from the

traditional system of complete detachment, with profits and losses being fully taken care of by public finance, to a system of linkage between domestic and overseas prices.

In brief, the price reform that Guangdong Province carried out in the last 11 years reform in the right direction. Its methods were quite feasible, and marked successes have indeed already been achieved. However, due to currency inflation, deregulated prices have shot up steeply, and new irrational price disparities have reoccurred. Disparities in the double-track price system have become excessive, price hikes for agricultural means of production have been too high, coal and petroleum prices have risen excessively, while it had been impossible to regulate the charges for electric power, thereby adding to the difficulties of price reform in the 1990's.

III. Objectives and Content of the Price Reform in Guangdong Province During the 1990's

Guangdong Province has brought currency inflation under control—the same as in the rest of the country—by pursuing a program of economic improvement and rectification over the past two years. Agricultural production is also in good shape with several consecutive years of abundant harvests of grain and sugar cane. At the same time, everybody throughout the province, high and low, has been giving very serious attention to the "food basket project" and to the abundant supply of goods to the markets. Industrial production is now taking a turn for the better, and purchases and sales in the markets are balanced and steady, and we are about to see a buyer's market. This is a good opportunity for price reform.

(a) Objectives:

The tentative plan, to begin in 1991, and to be completed in about five years, is the organic integration of price reform, reform of the entire economic structure, and the development of the economy. On the premise of maintaining an overall balance in the national economy and restricting currency inflation to certain limits, the plan is to carry out price reform with particular emphasis on certain focal points, in a methodical and safe manner. In its method, this reform is to combine deregulation with regulation, but to have deregulation predominate. The pricing system that is to be gradually established shall be one in which "state-set prices shall apply for commodities and labor services at a few focal points, where there is a shortage of material resources, the elasticity of supply is small, and there is a strong monopolistic character. For the rest of the economy, differentiated according to different situations, one part shall carry out state-guided pricing, but for the majority of cases prices shall be deregulated and market-regulated prices under state supervision shall apply." Furthermore, the plan would greatly reduce price subsidies by public finance, and straighten out in a rational manner the various price parities and price differentials of the price system, so

that prices will, on one hand, reflect values and the true supply-demand situation, maintain a rational price differential between prices within and outside the province, as well as within and outside of the country as a whole; on the other hand, prices will ensure that under conditions of normal production and rational management, fund/profit ratios will be achieved which on the whole will be of nearly equal level. This is to bring about a sustained, steady, and coordinated development of the national economy, giving full effect to the price lever in the development of social productive forces and the improvement of the people's livelihood.

IV. Content:

(a) Prices for agricultural products: The main task for the 1990's will be the reform of grain prices. First, we have to differentiate in the procurement sector between tax grain and purchase grain. The tax grain obligation of the peasants must be rationally determined as a form of tax payment in the form of rice or grain. The part that is purchase grain is to be turned over to the state, at a gradually increasing procurement price, to fulfill the obligation of the procurement plan. This price is ultimately to be deregulated and this grain will in future be turned over to the state on the principle of equal value. Second, grain purchase and sales prices must be straightened out in a rational manner. Hidden subsidies must be turned into open supplements to wages, the latter to be a responsibility of whoever pays the wages.

(b) Prices for energy sources, raw and semifinished materials, and charges for communications, postal and telecommunication services. Means of production consumed in Guangdong Province are presently to 80 percent charged at market prices or guidance prices. In the 1990's, Guangdong must begin with the realities of the situation and go on from there, first with the following step:

(1) Important commodities with limited resources, little elasticity in supplies, and a strong monopolistic character, such as coal, petroleum, electric power, chemical fertilizers, pesticides, communications and transportation, postal and telecommunication services, must gradually have their plan prices raised to achieve the average social capital/profit level, and must each be charged at a unitary plan price. Among all these prices, those for electric power must be adjusted first. Purchase and sales prices for coal, petroleum, petrochemicals, and petroleum for civil use must be straightened out in a rational manner, and hidden subsidies must be converted into open supplements. All these prices must be regulated whenever such regulation is called for, so that plan prices will always be at a rational level.

(2) Commodities with much elasticity of supplies, abundant resources, and of strong competitiveness, such as cement, glass, structural ceramics, ordinary industrial chemicals, products of the mechanical and electrical industries, may have their plan prices in future gradually

deregulated, and their prices shall become market-regulated prices with state supervision.

(3) Instituting double-track prices. Commodities for which it is not yet possible during the period of the Eighth Five-Year Plan to merge prices to one track, such as metals, various basic products of the chemical industries, etc. may be left under the double-track system, but with enhanced state supervision. The disparity between prices within and outside the plan should continuously be narrowed, so as to ultimately deregulate most of them, and have them become market-regulated prices under state supervision, and only a small portion of them should be priced according to plan prices. In this way the reform task of converting double-track to single-track prices will indeed be accomplished.

(4) In the case of products of the light and textile industries, we must start out from the realities of the situation and basically follow the principle of less but effective state supervision. Apart from some important items, such as salt and agricultural plastic sheets, for which the state should set fixed prices, all the rest may gradually be deregulated; their prices shall become market-controlled under administrative supervision.

(5) House rentals and house prices should be subjected to reform to conform with the principle of commodity economy. House rentals and house prices for residential houses built by enterprises and industrial units of the government for their staff and workers may only be adjusted upward to ensure that operational costs are covered, because of the comparatively low scale of salaries and wages of the staff and workers concerned. All other real estate shall be administered according to the principles of commodity economy, and the operational mechanism thus created shall be in line with the commercialization of real estate.

(6) Fees collected for administrative services. Although Guangdong Province has achieved marked successes in the movement for improvement of the economic environment and rectifying of the economic order, it has still a very serious problem in that fees are presently collected much at random. In future, there has to be administrative supervision to ensure standardization, compliance with laws and regulations, and an observance of scientific principles.

V. Initiating and Perfecting New Methods of Regulating and Controlling Prices

After further deepening of the price reform, an ever larger proportion of prices will be deregulated, and the traditional methods of direct regulation and control of prices will no more be feasible. It will therefore become necessary to initiate and perfect new methods of regulating and controlling prices. This too is an important part of price reform:

(a) Further perfection of the responsibility system with regard to an objective-conscious control of prices. Only

if governments at all levels clearly visualize the objectives of their particular price controls at the various times in question, will it be possible to spur the governments at all levels on to effect comprehensive control by means of economic, legal, and if necessary administrative measures, and will it be possible to have all measures and controls exercised with equality for all, and also possible to ensure the sustained, steady, and coordinated development of the national economy. Only then will it also be possible to increase supplies, control demand, and, on the basis of a balance between supply and demand, guarantee the fundamental stability of market prices.

(b) Achieving basic stability of prices by stabilizing the monetary situation. Under conditions of freely circulating paper currency, there is a cause-and-effect relationship between money supply and price levels. The critical point in any attempt to effectively control money supply is the control of the credit volume. Computed on the basis of data from the last 10 years of experiences in Guangdong Province: credits increased at the annual rate of 12 to 15 percent, however national income increased at the rate of 8 to 10 percent, while price rises had been controlled at around 5 percent.

(c) We must maintain the benign cycle in the national economy. Prices are the comprehensive reflection of the national economy. To control prices, we must first of all control the economy. Only by giving full play to the superiority of the socialist planned commodity economy, consciously maintaining the proportionate development of the national economy, by maintaining a rational proportionate relation between prices, wages, and the per-capita increase of national income, can the basic stability of prices be guaranteed.

(d) Lifting the level of price control to a new height. The functions of departments in charge of commodity prices at all levels must now shift from the traditional control by directly fixing prices to engage now in research on decisions, in coordinating controls, in providing information services, and in exercising supervision and instituting investigations. They must get on a track of regulating and controlling that is predominantly indirect, and that should consist of an integration of economic, legal, and administrative measures:

(1) A sound price-regulating fund system. Starting out from the realities of the situation, we shall, furthermore, establish at the various levels of the province, municipalities, and counties sound comprehensive and individual price-regulating fund systems, exercise nonprofit market-regulating functions, and ensure the fundamental stability of prices.

(2) Establishing a system of market-price monitoring. On the basis of the present work done in price information gathering, we shall carry out follow-up monitoring of supply-demand fluctuations and price changes of all important commodities, so as to be familiar at all times with such movements and to analyze these movements,

also to be ready in good time to propose countermeasures for problems that could possibly be expected in future.

(3) Further perfection of a modern system of controlling disparity ratios and the purchasing and sales links. While differentiating between different types of commodities, we shall for some determine differentials between intake and sales, differentials between wholesale and retail sales, and the purchase and sales links. For others we shall initiate a system of reporting price increases, and we shall bring commodity prices which have been deregulated and which are market-controlled prices into the orbit of controlled standardization.

(4) Changing the confused state of the past caused by only officially concerning oneself with the state-set prices and disregarding market-regulated prices, by only officially concerning oneself with state-run and collective enterprises, and disregarding individually-operated factories and firms, by only officially concerning oneself with urban markets, and disregarding rural markets. It is necessary to further perfect the price control system of the basic governments of villages (townships) and effect a standardization of rural market-price controls. We shall further perfect the control of market prices in the trade in cities and market towns. By applying the provisions of the "Measures for the Control of Pricing by Enterprises," we have to clarify the rights and obligations of enterprises in their pricing activities, and also clarify all principles, procedures, and reward-penalty measures concerning pricing. We shall establish a mechanism to restrain the pricing activities of producers and business operators.

(5) Enhancing the legal apparatus concerning prices, strengthening state supervision and investigation of pricing, and further implement a system in which pricing is governed by law. On the basis of the present price regulations, and of the "Price Law," to be promulgated in future, we must start out from the realities of the situation, and accelerate the enactment of various comprehensive and individual price laws and regulations. We must set up a sound organization for the enforcement of all price laws; we must replenish the contingent of needed personnel, continuously raise the level of price supervision and investigation, and must achieve a state of affairs in which pricing is governed by law.

(6) Strengthening the training of cadres to be in charge of commodity price affairs, continuously raising the quality of commodity price cadres. Following the deepening of the price reform and the continuous updating of our forms of price control, the task of training commodity price cadres will be an arduous one during the 1990's and especially during the period of the Eighth Five-Year Plan. From now on, we shall, based on an on-the-job training method, start to work systematically and in a planned manner, with rotations of separately spaced groups, on continuously raising the theoretical level and control capabilities of commodity price cadres.

INDUSTRY

Problems Confronting Silk Production, Exports

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[Article by Ren Lie, Silk Industry College, Zhejiang
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Exports"]

[Text] 1. China's Silk Export Strategy**1) China's Silk Exports and Basic Situation in the World Market**

A) China is a leader in silk production in the world and a leading silk exporter. However, it is not yet in a position to set the trend in world silk consumption. To put it more accurately, China is a leading world producer and exporter of raw silk and semi-finished silk fabrics, but its exports of finished silk products account for 14 percent of total world trade in silk. Moreover, the centers of silk consumption in the world are the United States, Europe, and Japan. It is developed nations, primarily processing nations in Western Europe, that set the pace for the processing and consumption of upscale silk products.

B) As it seeks to develop its raw silk production, China faces competition from other developing nations. Numerous developing countries with the right climate enjoy a comparative advantage in raw silk production, which is a labor-intensive industry. As long as it is profitable, it will be nurtured. At the moment, Brazil, India, Thailand, and other developing nations are all making a push for silk production with government encouragement and support. Some developed nations and international economic organizations are flocking to these nations to invest in silk production or aid such production. The potential for development is there.

C) The basic pattern of Third World nations producing silk fabrics and developed nations processing and consuming them cannot be altered in the foreseeable future. If we look back at history, we will see that there is a limit to the volume of silk consumed in developing nations, which in any case are concentrated in high-income oil-producing nations in the Middle East and North Africa and other nations and regions with a silk-consuming tradition. As a consumer good at the high-end of the market, the multiple processing and consumption of silk can only take place in technologically advanced and high-income nations for a long time to come.

2) The Missions and Goals of China's Silk Export Strategy

The missions and goals of China's silk export strategy are as follows: Stabilize and gradually expand the world silk market. Increase silk exports. Consolidate and enhance

the leadership of China's silk exports and absolute advantage on the world market. Increase China's share of the world silk market. Improve the quality, grade, and level of processing of China's silk exports to make them more competitive and generate more foreign exchange earnings, thereby contributing even more to socialist modernization.

3) Silk Export Strategic Measures

A) Adjust the mix of silk exports systematically in accordance with a plan. Concerning the mix of silk exports, there are two schools of thought in China's silk community. One is the time-honored idea that as a silk exporter, China should concentrate on raw silk and semi-finished silk products. The other, which emerged just a few years ago, argues that we should change our silk export mix immediately by increasing the degree of processing. To me, both schools of thought are one-sided. The first school has helped stabilize and expand the world silk market in the past 10 years, but it should only be considered as a tactical expediency. In the final analysis, if we are to achieve our silk export strategic goals, we must change the mix of silk exports to make exporting more profitable. The latter school of thought, for its part, has thrown the world silk market into turmoil in the past two years. The greater the degree of processing, the lower the prices of Chinese exports, contrary to our wishes. This practice is divorced from the reality in the nation.

The degree of processing has a direct effect on the magnitude of export earnings. In this sense, of course, we should increase the share of finished silk products as a percentage of our exports and reduce raw silk exports. However, adjusting the share of silk exports is closely related to the level of production technology. The two must be in harmony with each other. Accordingly, I think we must proceed step by step following a plan.

(1) Keep raw silk exports at a reasonable level relative to total silk exports so as to meet the needs of silk processing in Western Europe and increase world silk consumption. One major prerequisite for increasing the degree of processing of export commodities is that Chinese silk and finished silk products satisfy silk processing and consumption needs in the world in terms of quality, design, and variety. Only then can our finished silk products be able to compete with the products of other processing nations and replace them on the world silk market. But the fact is that China is not yet equipped for such competition at the moment. The opportunity to go in for large-scale multiple processing in silk has not yet arrived. When it comes to multiple processing, China today still trails developed nations, whether in terms of its research of the design, style, and fabrics popular in the world market or of its dyeing, materials, and finishing technology. It will not be able to beat its competition on the market.

Thus we must secure our edge in raw material and semi-finished products by improving quality. For the

time being, it would be inadvisable for China to plunge headlong into multiple processing thoughtlessly. It should ensure the supply of a suitable amount of raw silks and semi-finished silks, nurture and utilize the silk processing capability of Western Europe, and, through its development, stabilize and expand silk consumption in the world.

(2) Strive to improve the quality and grade of silk exports and increase the share of silk products in order to boost foreign exchange earnings. To make silk exports more profitable and generate more foreign exchange earnings, we must increase the degree of processing of silk commodities and gradually expand the market share of finished silk products. To effect this change is an important part of the realization of the goal of the silk export strategy. It is also where the long-term interests of China's silk exports lie.

Gaining the upper hand as an exporter of silks and satins is much more difficult than gaining the upper hand as an exporter of raw silk. We must narrow the gap between China's silk and satin production technology and that of nations at the upper end and middle of the market. First orders for print silks are too large and delivery times are too long. These are weaknesses that must be corrected. The key lies in improving technology and bettering management so that we can respond flexibly to market demand, studying the sales situation and product life cycle of popular fashionable varieties and introducing new designs at the right time. At the same time, we should make the most of our strengths and minimize our weaknesses. Develop a larger variety of artistic and practical fabrics and accessories, including satins, embroidery, and shou hui. As for silk apparel exports, while China enjoys an edge in lower processing costs, its weaknesses in style and delivery cannot be overcome anytime soon. Provided we do a good job as indicated above, there is potential for development.

B) Major Issues in Setting Silk and Satin Export Prices Correctly

(1) Raw silk prices must help limit raw silk production in other raw-silk producing nations without being too burdensome for silk and satin processing nations in Western Europe. When prices are too low, they militate against the development of silk production in China for export. When prices are too high, they stimulate the development of raw silk production elsewhere. Moreover, if prices are so high that they prove burdensome for the processors in Western Europe, they will have a dampening effect on silk consumption.

To maintain China's position as a leading silk exporter and the stability of the world silk market, therefore, the prices of raw silk should equal or be slightly lower than the production costs of such raw silk-producing and exporting nations as Brazil.

(2) The prices of raw silk should be reasonable relative to those of silks, satins, and other finished products. They should be such that Chinese raw silk is able to compete

with processing nations at a profit. Moreover, they should be at a level that will help expand multiple processing at home and enhance our export competitiveness overseas. They should be made more competitive with other fibers. China's reputation in silk should be maintained and users' confidence increased. Since Chinese silks are no match for their Western European counterparts, prices necessarily differ, which actually should help boost sales. However, the fact that silk production costs in Western Europe increase year after year must also be taken into consideration. Price differences should not be excessive.

(3) Good quality, high prices. Prices should differ in accordance with product quality and grade. Foreign trade procurement prices should be directly pegged to export sale prices. Production and sale should be allowed to deal with each other directly and negotiate prices based on quality. The technological transformation of large enterprises should be encouraged. The quality of the various stages in the process of multiple processing should be raised. The mix of added value interests of the various stages—silk reeling, printing, dyeing, and weaving—should be sorted out by setting prices in a reasonable manner in accordance with the difficulty and degree of processing. Good quality, high prices. That way the upscale characteristic of silks and satins can be preserved.

(4) Prevent disruption from illegal import and export goods and avoid cut-throat competition caused by price slashing. Prices should be uniform throughout the nation. The ports should jointly determine a price range and centralize management so as to present a united front to the outside world.

(5) Changes in currency values must be considered in setting export prices.

In short, export prices must maintain a degree of stability so as to stabilize the world silk market, on the one hand, and help the export drive, on the other.

C) Correctly handle the relations between entrepot trade and direct trade. Our standpoint is that we should increase direct trade as much as possible, at the same time making use of entrepot trade while avoiding its problems.

(1) The pros and cons of entrepot trade. China's silk exports are destined for a handful of markets. On the one hand, there is a concentration of consumption markets. On the other hand, entrepot trade accounts for an inordinate share of such trade. The former is an objective fact and is therefore normal. The latter calls for some careful analysis.

Hong Kong is the largest center of entrepot trade in silk in the world, followed by Switzerland and Dhufai in the Middle East. Generally speaking, Chinese goods do not have direct access to a number of regions or countries because they have no diplomatic ties with China or

because of the presence of objective or artificial restrictions on the entry of Chinese commodities. A free port connected to China by sea and land, Hong Kong naturally became an entrepot trade port. Hong Kong buys silk from China, sells a small part of it locally in Hong Kong itself, processes or repackages another part before re-exporting it, and directly ships the rest for sale to other nations or regions, most of which have trade or formal diplomatic ties with China. Thus the entrepot trade in silk has two obvious drawbacks. First, it disrupts the market in the original exporting nation. Entrepot trade exists because it is profitable. To enable processing or retail merchants in the importing nation to process or sell the products at more competitive prices, entrepot traders often transship merchandise from the place of origin to other locations through their sales channels by providing certain services or by giving up some of their commissions. Because silk markets and users are relatively concentrated, the markets of the original exporters are disrupted. Entrepot traders regard their sales networks and the conditions in the entrepot markets as trade secrets to be treated with the utmost confidentiality. The original exporter is often blind to the injury that it suffers as a result. Second, direct profits are lost. The direct profits of the entrepot trader and those of the exporter represent a zero-sum game. Post-transshipment prices renegotiated by the entrepot trader and importer. The lower the prices for the initial transaction, the greater the profit for the entrepot trader and the smaller the profit for the exporter. Thus entrepot trade works against the exporter getting a good deal. The large volume of entrepot trade going through Hong Kong is something that we would do well to study closely.

Of course, one cannot generalize about all entrepot trade. At a time when China's external sales network and sales channels, customers, market information, methods of doing business are still not totally up to par, there is still a need for entrepot trade. The key is to take advantage of the positive aspects of entrepot trade while containing its weaknesses and to select its more favorable forms. For instance, right now the silk printing and dyeing and apparel industries in Hong Kong have short delivery times and small initial orders and are able to respond quickly to what the market wants in terms of design and color coordination. Hong Kong imports semi-finished silks from China, processes them through printing and dyeing, sells some locally and exports the rest to Europe and the United States. In effect what Hong Kong is doing is to close the production gap in China's dyeing, printing, processing, and clothing-manufacturing industries, which helps increase silk consumption on the world market. However, silk transshipments from Hong Kong should be restricted. The prices of raw silk exports to Hong Kong should be kept at the same level as those of raw silk exports to Western Europe, avoiding excessive differences. Also, silk exports to Western Europe may be expanded through Switzerland while those to the Middle East, South Asia, and east Africa through Dhufai.

(2) Make a push for direct trade and establish an international sales and information network. Make full use of the resources of the commercial sections of China's overseas embassies and consulates-general, the representative offices of companies, and assorted foreign trade organizations to conduct detailed studies of foreign markets and commodity circulation channels. Establish sales outlets and understand market changes without delay in order to expand direct trade in Chinese silk.

(3) Even as we consolidate and expand the existing consumption markets, we should also set our sights on new markets. Japan, Western Europe, and Hong Kong are the leading markets for China's silk exports, absorbing more than three-quarters of such exports. The Soviet Union, Eastern Europe, the Middle East, and East and North Africa are the traditional silk consumption markets. We should secure and expand our market share there. As for the United States, it is the major world silk consumption market currently in the midst of a revival. We should expand our exports there. Northern Europe is a new market with enormous potential. We should do everything to pry it open.

The opening up of new markets should proceed in order of priorities. When our targets are high-income, high-consumption nations like the United States and Northern Europe, we must launch a major campaign to publicize the characteristics of silk products. When we enter the market, we must secure a foothold on it and cultivate key customers selectively and encourage them to work to expand the sales of Chinese exports.

2. Silk Production Strategy

1) Guiding Thought Behind Silk Production Strategy

A) The development of silk production is the material base for the expansion of China's silk exports. We must go about expanding silk production gradually. Guided by the production, sale, and marketing situation on the world silk market, we must raise the yield per unit area on the existing scale of production and increase the silk production rate to satisfy export needs.

B) To meet the ever-growing silk consumption in the world and adapt to the stress on quality in the world silk market, we must rely on scientific and technical advances and seek to improve the quality of silk products steadily.

C) Handle the relations between old and new silkworm bases properly. Old bases usually have formidable management experience and a coherent set of production technological measures. The quality of silkworm cocoon production is fairly high. Besides, China has only limited cultivated land. Developing bases on a large-scale is not a viable idea. For these reasons, we should consolidate existing silkworm bases, concentrating on the increase in yield of silkworm cocoon per unit area and the improvement of silkworm quality and silk production rate. After existing bases have been taken care of, we should then develop new bases systematically, at the same time

disseminating technological knowledge and passing on management experience in order to improve production quality and efficiency.

D) Within the framework of household management, search for suitable forms of scale management so as to improve silkworm quality and profitability. Borrowing a leaf from Japan's book of production experience, we should gradually try out intensive mechanized mulberry-planting and silkworm-raising as a way of raising yields per unit area at selected sites. This process should be aided materially and technically and supported with the right government policies. Given the fact that we still cannot expand the scale of silkworm raising for the time being, we should popularize the young silkworm common breeding system.

E) Perfect the silkworm procurement management method that fully embodies the principle of you get what you pay for. Gradually introduce the silkworm price calculation method. Instead of having the supply and marketing cooperative doing the procurement and drying for others, silk companies should procure centrally to enlarge quality-based price differences. Popularize the scientific apparatus silkworm cocoon assessment method. The "combined silkworm cocoon and silk reeling plan" currently being tried out in Jiangsu and Zhejiang is an advanced fresh cocoon procurement method that should be introduced everywhere when conditions are ripe. With such a system, we will be able to enforce cocoon prices better and spur on silkworm growers to improve production quality.

F) Rely on scientific and technical advances to improve the quality of silkworm cocoon, expedite the development and application of new technology, improve soil, introduce improved breeds of silkworm and advanced silkworm-raising technology, and raise the fresh cocoon silk-producing rate. Expand the proportion of silk reeling done by automated reelers to raise productivity in silk making.

G) Improve the level of production management. Raise production efficiency. Do a good job in the supply of silkworm varieties and silkworm raising. Tighten inspection to prevent the release of diseased varieties. Step up publicity to make silkworm growers and personnel in procurement and drying more quality-minded. Intensify technical guidance for silkworm growers and the technical training for personnel in procurement and drying to popularize scientific silkworm-raising, procurement, and drying.

3. Reform the Silk Management System

The characteristics of the silk industry are that it is highly specialized, there is only a single source of raw materials, that the products are destined for one destination, and that the various stages—production, supply, and marketing—are closely integrated and related to one

another, forming an organic economic system. Its systematic nature requires that we ensure its normal operation organizationally and combine its various specialized stages so that mulberry-growing, silkworm-raising, silk reeling, and satin weaving are integrated into a single entity. That way we can prevent the unguided development of any one stage and enable the silk economy to meet the overall demand of its development. Thus the thrust of the reform of the silk management system is "integrated management."

1) Learning from success stories in silk management overseas

There is much we can learn from India and Japan, two major silk-producing nations.

In India, the management of the silk industry (from silkworm production through industrial production to foreign and domestic trade) is integrated, organized and led by the central silk bureau which provides overall planning and coordinates development. The state exercises direct leadership over scientific research and training centers as well as state breeding farms. It has established a silkworm cocoon market, raw material bank, and raw silk exchange. It also sets prices directly, regulating and controlling production and circulation industry-wide through the price mechanism. It manages trading in silk cocoon and raw silk through a permit system. In this way orderly regulation and control by the state is ensured and the stable coordinated development of the silk industry is powerfully expedited.

In Japan, special agencies exist to manage the silkworm and silk industry from the local level all the way to the center. There is comprehensive legislation governing the silkworm and silk industry, including the silk law, cocoon quality testing law, and the silkworm variety prohibition law, etc. In Japan, the silkworm industry is actually jointly managed by two major sets of institutions: government agencies from top to bottom and semi-official, semi-private agencies (trade associations) from bottom to top. By putting to work the advantages of government-private sector cooperation and economies of scale, Japan has successfully promoted its silk industry.

2) The advantage of "integrated" management Integrated management is what it will take to develop China's silk exports and enhance their competitiveness on the world market. With a system that combines agriculture, industry, commerce, and trade, we can allocate human, material, and financial resources centrally, target the world market accurately, and adjust the product mix promptly to meet market needs. Resources can be devoted to the production of export-oriented products and the optimization of the export mix. By pooling the interests of the various parties, we can present a united front to the outside world and prevent the outflow of profits. Moreover, large integrated organizations can better withstand the turmoil on the world market.

3) A blueprint for the introduction of integrated management

Given the existing economic system and the fact that there are multiple rigid centers of interest, we should begin by carrying out pilot projects at selected points from the bottom up. We should proceed step by step, region by region. In the silk industry, any one single enterprise commands only a tiny amount of resources. Besides, the reform of the management system of the silk industry involves every sector. For these reasons, if we are to introduce integrated management and organize integrated companies, we must secure the strong support of the local governments involved. Counties and municipalities producing large quantities of silkworms may first set up a silkworm and silk management office or a similar body to carry out a relatively loose form of management. When conditions are ripe, the management office can be replaced by a company. As for counties and municipalities that produce a small quantity of cocoons, they can directly set up silk companies, with loose integration gradually giving way to more integrated companies.

It is proposed that corporations be set up in Jiangsu, Zhejiang, and Shanghai, which are better endowed, to break down regional and sectoral barriers and achieve extensive multi-level cooperation between agriculture, industry, trade, commerce, and educational and scientific research institutions. By exploiting the advantage of comprehensive competition, establishing multinational corporations and directly expanding operations overseas, we can put the international market to even better use and adapt to it more successfully.

Shanghai To Accelerate Innovations of Key Industries

*OW1905020291 Beijing XINHUA in English
0056 GMT 19 May 91*

[Text] Beijing, May 19 (XINHUA)—Shanghai plans to invest 40 billion yuan (8 billion U.S. dollars) to step up its technical innovations of 10 industries during the Eighth Five-Year Plan period (1991-95), today's CHINA DAILY reports.

The targeted investment shows an increase of 30 percent compared with that in the past five years, said Yu Guosheng, deputy director of the Technical Transformation Department of the city's Economic Commission.

The focus of technical innovations in the coming five years, Yu said, will be on 10 industries which involve car manufacturing, digital-controlled machine tools, communications, computers, power station equipment, raw materials, household electrical appliances, textiles, plastics and chemicals.

The guidelines laid out for the overall technical transformation strategy in the five years include combining the

renovation of older industrial enterprises west of the Huangpu River with the development of the Pudong new area, Yu said.

"Different from the former practice, the present technical innovation projects will not be confined to large industry only, but will involve the collective and rural industries," he said.

Through technical progress, more conglomerates will be set up to promote the advance of the renovated industries as well as other related industries, Yu added.

To fulfill the technical transformation strategy for the coming five years, Shanghai will continue to import foreign technology and equipment. In the past decade, the city signed some 2,000 contracts to import advanced foreign technology and equipment to update enterprises.

Shanghai Improves Material Supplies to Foreign Enterprises

*OW0406133691 Beijing XINHUA in English
1136 GMT 4 Jun 91*

[Text] Shanghai, June 4 (XINHUA)—The Shanghai Bureau of Materials and Equipment recently took new measures to improve material supplies to foreign-funded enterprises.

The bureau's deputy director Zhou Xiaohong said that these measures included selling some state-controlled materials to foreign-funded enterprises at domestic market prices.

Commodities which are balanced in demand and supply will be sold to foreign-funded enterprises at prices lower than market ones, she said.

The materials and equipment service company for foreign-funded enterprises under the bureau will help the enterprises import duty-free materials.

She said that the Shanghai Municipal Planning Commission has allocated 5,000 tons of rolled steel for foreign-funded enterprises.

In recent years the Shanghai Bureau of Materials and Equipment has made efforts to provide convenience for foreign-funded enterprises in material supplies, thus improving the investment environment of the city.

Statistics show that last year the bureau provided these enterprises with materials and equipment worth 136 million yuan, an increase of 15 percent over 1989.

The bureau has formed supply networks for metals, timber, chemicals, fuel, machinery and electrical equipment for foreign-funded enterprises.

Zhou revealed that the bureau is planning to double supplies to foreign-funded enterprises over the next three years, and in 1993 the value of such materials will reach 330 million yuan.

Light Industry Exports Rise 52 Percent

HK0906024091 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 9 Jun 91 p 1

[By staff reporter an Weihong]

[Text] Exports of light-industry products in the first quarter jumped 52.9 percent from a year earlier, but industry leaders said the rise came at too great a cost to the industry.

Zhong Shiquan, director of the export office under the Ministry of Light Industry's Production Regulation Department said the increase in exports was achieved "at too much expense" to the industry's enterprises.

He said the current foreign-trade policy was unfavourable to the enterprises and that the devaluation of the renminbi yuan has pushed up production costs, cutting into many companies' profits.

According to China's current foreign-trade policy, manufacturers, who are not allowed to export directly may only keep 10 percent of their foreign-exchange earnings, while those import and export companies directly under the Ministry of Foreign Economic Relations and Trade (Mofert) may keep up to 60 percent of the foreign-exchange they generate.

Of the 80,000 enterprises in the light-industry sector, only about 200 have been given the authority to engage directly in foreign trade business without going through State trading bodies.

Last year, light-industry exports totaled \$15.7 billion, yet only 5 percent of that amount was handled by the industry directly, according to Zhong.

Moreover, he said, manufacturers' interests were seriously harmed by the fact that those Mofert companies allowed to engage in direct foreign trade have begun lowering the prices for their goods.

Under the new foreign-trade system, companies engaging in direct foreign trade are becoming increasingly price competitive, Zhong said, since the central government earlier this year removed all subsidies paid to them.

Zhong gave the example of a foreign-trade company in Tianjin that earlier this year cut its purchasing price by as much as 40 percent for carpets manufactured by the Tianjin Carpet Industrial Corporation, sharply cutting into the company's profit margin.

"For many manufacturers, the more they sell for export, the more they lose," he said.

In order to cut growing production costs, Zhong said, many manufacturers, are now shifting their production to rural enterprises which enjoy income tax exemptions.

However, Zhong said he was not against the country's foreign trade reform but said that "the unfair distribution of interest was seriously damping the enthusiasm of manufacturers.

"Halfway measures in reform policy will spoil overall economic efficiency and jeopardize the development of foreign trade as a whole," he said.

The delayed delivery of government funds meant to promote technical renovation in State-owned enterprises and some unfavourable tax policies which discourage exports outside the government's plan also are hampering manufacturers wishing to export, he said.

Zhong said his ministry was working on a package of plans and measures to enable more enterprises to sell their products directly on international markets.

One of these, he said, was an exhibition centre to display light industry products so as to enable manufacturers to make on-the-spot deals with foreign businessmen.

Closer contact also will be promoted with the 136 trade agencies the industry has established in 26 countries and regions in the world. The agencies will be encouraged to play a bigger role in future trade so that an international trade network can be formed for China's light industry.

The ministry will also reward those enterprises that have annual export earnings of more than \$3 million. These enterprises will have priority in obtaining funds and raw materials, and stand a better chance for making inspection tours and hold trade promotions abroad.

Statistics Bureau Releases May Industrial Output Figures

HK1306135691 Beijing CEI Database in English
13 Jun 91

[Text] Beijing (CEI)—Following is a list showing China's total industrial output value in May 1991, released by China's State Statistical Bureau:

	(In 100 million yuan)		
	5/91	1-5/91	increase over 1-5/90 (percentage)
Total including:	2033.7	9152.1	13.3
Export products	223.4	962.7	9.5
Light ind.	979.8	4505.1	15.4
Heavy ind.	1053.9	4647.0	11.3
State enterprises	1291.4	5984.0	8.9
Collectively owned ones	614.0	2611.1	19.0
Others	128.3	557.0	42.9

(Industrial output value is measured in 1990's constant yuan)

Raw Materials Figures for May*HK1406115291 Beijing CEI Database in English
14 Jun 91*

[Text] Beijing (CEI)—Following is a list of the output of raw materials in May 1991, released by the China State Statistical Bureau:

Item	Unit	5/91	5/90
Iron ore	10,000t	1494.6	1478.7
Pig iron	10,000t	544.1	522.0
Steel	10,000t	574.2	568.0
Rolled steel	10,000t	468.66	438.00
Ferro alloys	10,000t	20.56	20.94
Coke	10,000t	450.56	428.89
Ten non-ferrous metals	10,000t	20.73	19.43
copper	10,000t	5.07	4.62
Copper products	10,000t	4.11	3.71
Aluminium products	10,000t	3.97	3.20
Alumina	10,000t	13.22	12.85
Sulphuric-iron ore	10,000t	108.54	103.28
Phosphorus ore	10,000t	207.60	191.07
Timber	10,000c.m.	230	239
Artificial board	10,000c.m.	24.36	21.91
Cement	10,000t	2252.2	1953.5
Plate glass	10,000c	722.11	662.01

Notes: m.m.—million meters, c.m.—cubic meters, c—cases

Output of Light Industry in May*HK1706105091 Beijing CEI Database in English
17 Jun 91*

[Text] Beijing (CEI)—Following is a list of the output of China's light industry in May 1991, released by the State Statistical Bureau:

Item	Unit	5/91	5/90
Bicycle	10,000s	329.74	266.53
Sewing machine	10,000s	63.71	65.38
Watch	10,000	636.7	662.1
Camera	10,000s	38.66	15.76
TV set	10,000s	205.77	212.74
Color TV	10,000's	99.51	71.74
Video recorder	10,000's	0.91	0.03
Radio	10,000s	150.02	176.23
Tape recorder	10,000's	252.13	228.26
Washing machine	10,000's	61.24	62.78
Fan	10,000s	818.49	714.62
Refrigerator	10,000's	48.35	47.62
Sugar	10,000t	3.42	4.04
Salt	10,000t	396.5	278.0
Cigarette	10,000c	255.9	258.2
Beer	10,000t	90.60	75.67

Liquor	10,000t	41.66	41.29
Canned product	10,000t	12.06	10.14
Feed	10,000t	228.95	219.61
Machine-made paper and kraft	10,000t	113.67	105.97
of: newsprint	10,000t	3.73	2.30
anastatic printing paper	10,000t	4.96	5.39
Synthetic detergent	10,000t	14.54	13.87
Daily fine aluminium products	t	7678	6931
Plastic product	10,000t	30.88	27.29
farming film	10,000t	2.76	2.04
Bulb	100m pc	2.43	1.97

Notes m.m.—million meter, c.m.—cubic meter, pc—piece, c—cases, t—ton, s—set

May Figures for Industrial Output Value by Area*HK1806104891 Beijing CEI Database in English
18 Jun 91*

[Text] Beijing (CEI)—Following is a list of the industrial output value by area in China in May 1991, released by the State Statistical Bureau:

Area	5/91	(Unit: 100 million yuan) Change over 5/90 (pc)
National Total	2033.73	13.3
Beijing	65.36	5.6
Tianjin	53.31	2.0
Hebei	81.87	12.2
Shanxi	44.69	4.6
Inner M.	22.77	1.7
Liaoning	133.58	7.1
Jilin	48.98	3.9
Heilongjiang	74.47	6.3
Shanghai	154.71	8.1
Jiangsu	237.39	20.1
Zhejiang	120.40	25.6
Anhui	55.37	14.5
Fujian	42.70	18.0
Jiangxi	36.61	10.5
Shandong	166.45	12.3
Henan	80.87	15.2
Hubei	92.47	10.0
Hunan	64.14	9.3
Guangdong	170.33	25.7
Guangxi	29.62	13.6
Hainan	3.32	11.0
Sichuan	110.36	19.1
Guizhou	18.82	6.7
Yunnan	29.34	9.5

Area	5/91	(Unit: 100 million yuan)
		Change over 5/90 (pc)
Tibet		
Shaanxi	39.38	16.5
Gansu	26.07	10.6
Qinghai	5.17	1.2
Ningxia	6.71	15.1
Xinjiang	18.39	14.4

Note: Industrial output value in 1991 is measured in 1990's constant yuan.

Regional Trade Expert Discusses Drop in Textile Quality

HK2306023091 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 23 Jun 91 p 3

[By staff reporter An Weihong]

[Text] While the quantity of China's textile exports has increased rapidly in recent years, the label "Made in China" is facing a reputation crisis on the international markets, with the quality of the products reported to be declining.

Lu Huangsheng, a senior foreign trade expert from Hubei, attributed the problem to four major factors, in an article published last week in the newspaper INTERNATIONAL BUSINESS.

Firstly, he said, China's foreign trade companies only deal with buying and selling: they have little say in production matters which are, in fact, none of their business. This means that they generally have to try to sell what has been produced instead of what is needed most in the market.

Secondly, because home demand for textiles outstrips supply, the majority of Chinese manufacturers pay little heed to international markets.

This leads to a situation where products intended for domestic consumption are taken away and sold abroad. They often fail to meet the requirements of foreign customers in quality, variety, style and packaging.

Thirdly, Chinese manufacturers, under pressure to fulfil the production and export quotas set by the central and local governments, are often driven to pursue increased output and ignore the need to improve the variety and quality of their products.

The pursuit of greater output means that they have little time or money to renovate or upgrade their old-fashioned machines, although it is increasingly urgent for them to do so if they are to be able to participate in international competition.

Lastly, enterprises engaged in foreign trade now intend to expand their business for their own sake and by all

means now that the government has abolished all subsidies to them and asked them to be responsible for their own profits and losses.

This results in the foreign trade enterprises seeking to do business with a quick profit and to ignore the need for long-term development of an export production base.

To remedy the situation, Lu suggested:

—Speed up changes in the structure of the textile industry, particularly, its export side. Products, enterprises, technology and regional development all need attention.

This means establishing more enterprise groups which produce name-brand goods.

The industry now has about 160 enterprises groups, accounting for one-tenth of the national total.

—Promote international standards for textile production throughout the whole industry because it depends increasingly on foreign markets, with about one-third of its products going for export.

—Uphold the standard of quality by constantly impressing on the workers in the industry how important it is, and rewarding good quality production while punishing bad.

—Speed up technical renovation and the replacement of old-fashioned machines with advanced equipment.

FOREIGN TRADE, INVESTMENT

Suggested New Reforms for Textile Trade

91CE0513A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 3, 5 Mar 91 pp 31-35

[Article by Xu Xi (6079 2569); Shen Zhiyu (3088 1807 3342), editor: "Improvement and Rectification; Reform Intensification: Thoughts on Intensifying Textile Foreign Trade System Reforms"]

[Text] In the past decade China has conducted a series of exploratory reforms on the textile foreign trade system and has begun to break the monopoly of the Ministry of Foreign Economic Relations and Trade and to advance textile industry development and growth of textile exports. According to Ministry of Foreign Economic Relations and Trade statistics, from 1978 through 1989, Chinese textile exports accumulated a total of US\$63 billion in foreign exchange, including US\$10.6 billion (not including cotton, textile machinery, textile equipment, and received and imported materials duplicate accounting) for 1989, a 400 percent increase over the US\$2.15 billion in 1978, and making up one-fourth of total national exports. The textile industry in the present stage has become the mainstay Chinese foreign exchange earning export industry. But we also should clearly consider that because textile foreign trade system

reforms have been incomplete and have lacked comprehensive and complete measures, the lack of division between government and enterprise, the unclear responsibilities and authority, the excessive restrictions, and the disjointedness of industry and trade in the former system still are very obvious. Presently, the traditional framework still has not been greatly changed. The purchasing system still is the dominant form of textile foreign trade, production enterprise contacts with the international market are extremely limited, and export growth relies mainly on growth in volume. Part of the reason that these problems and contradictions exist lies in the growth of the economy in general and the transformation of its system, and part comes directly from the tendency toward rigidity of the traditional textile foreign trade system itself. So, an objective analysis of the changes in ten years of reform of the Chinese textile foreign trade system and the causes of the problems and contradictions described above will help in conducting further and more intense reform of the textile foreign trade system.

I.

China's original textile foreign trade system took shape under peculiar historical circumstances. From 1949 through 1978, China's economic development was founded on self-reliance, taking the approach of relying on our own resources and capabilities to develop economic technology and opposing excessive reliance on external relations. So, the textile foreign trade management system developed during this period was a centralized system with an obvious monopolistic quality. It should be recognized that at a certain stage this system played a positive role. But with the development of the social economy, the abuses of this highly centralized textile foreign trade management system principally managed by administrative means were increasingly revealed, mainly exhibited in centralized administration, monopolistic management, centralized responsibility for profits and losses, unbusinesslike management, and lack of unified responsibility and authority along with disjointed industry and trade, separation of imports and exports, and lack of separation of government and enterprises. More and more these factors displayed a tendency to obstruct economic development and deviate from the requirement for opening up.

In the early 1980's, a period of exploratory reforms on the textile foreign trade system was begun, guided by the general line of thinking on reform of the national foreign trade system and directed at the abuses described above. This entire process generally can be divided into three stages.

The first stage, from 1981 through 1983, was the initial experimental stage. To change the monopoly of the Textiles Import and Export Corporation, the experimental reforms of the first self-managed textile export enterprise—the Guangzhou Raw Silk Factory [1639 1558 4831 7802 0617], the first combined industry and trade textile import and export company—Qing Fang

Lian [7230 4791 5114], and the first unified industry and trade company—the Shanghai Handkerchief Factory were approved by the State Council Import and Export Commission, the State Commission for Restructuring the Economic System and the Ministry of Foreign Economic Relations and Trade, laying a definite foundation for a series of reforms to follow.

The second stage, 1984 through 1987, was a stage of total development of experimental reforms, laying particular emphasis on improving the textile foreign trade environment and increasing use of economic means. In September 1984, the State Council approved the report of the Ministry of Foreign Economy Relations and Trade on reform of the entire foreign trade system and the textile industry began to try out such measures as simplified administration and delegation of authority, separation of government and enterprises, retaining foreign exchange, and export awards. Textile foreign trade enterprises at every level were gradually freed from the administrative control departments with which they were formerly affiliated and developed in the specialized direction of independently managed textile import and export businesses, and the scope of direct control of administrative control departments was gradually reduced. At the beginning of 1985, State Council Document Number Five made it known that reform of the textile foreign trade system had entered a "hot point" stage. That year the Shanghai Xin Lian Fang [2450 5114 4791] and the Guangzhou, Tianjin, Dalian, Fuzhou, and Ningbo Fang Lian [4791 5114] Companies were established one after another, and the Qing Fang Lian was expanded from the original eight enterprises to a complete industry. These companies, making use of the advantage of combined industry and trade, played a big part in exploring the direction of China's textile foreign trade system reform. In 1987 central authorities also permitted overlapping administration of foreign trade departments. Some nationally and locally managed foreign trade companies of various types successively took part in the textile foreign trade managed businesses, further substantiating and enriching the textile foreign trade management system.

The third state, from 1988 to the present, is the stage of intensified reform, and comparatively speaking, it also is the most rapid stage of reform development. In 1988, following the implementation of the foreign trade contract management responsibility system with foreign exchange earnings, foreign exchange receipts, and subsidized losses as the three categories of assessment indicators, the main body of the textile foreign trade business began to manifest a multifaceted structure. Several provinces and municipalities in succession approved over 100 self-administered export enterprises and enterprise groups. The emergence of this group of self-administered enterprises fully aroused the enthusiasm of enterprises to develop textile exports and conduct vigorous and beneficial investigations of such aspects as reducing the turn around cycle, lowering circulation costs, accelerating interest payback, and achieving small batch, multiple

variety products with rapid delivery and increased selling prices. It is worth mentioning that in 1989 when Shanghai tried out the dual line foreign trade and industry contracted foreign trade agency system throughout the industry, it clearly increased production enterprises' consciousness of export foreign exchange earnings, accelerated product upgrading, developed closer relations between production enterprises and the international market, and promoted the establishment of a business management mechanism suited to external economic development.

All of these exploratory reforms impinged on China's former textile foreign trade system and broke long-standing reliance of specialized foreign trade companies on administrative monopolies and exclusive operations, and enlivened the textile economy and enriched the foreign and domestic textile markets. But we also should notice that the absence of an overall design caused some measures to be incomplete and some methods to lack coordination. In addition, some operations were faulty so that several fundamental abuses in the former system have still not been thoroughly eliminated and various contradictions and interlocks remain in the textile foreign trade system, prominently manifested in:

(1) The Contradiction of the Isolation of Productive Enterprises From the International Market. Chinese textile exports still fundamentally rely on the purchasing system. The Chinese textile export cycle still mainly takes the traditional form of production enterprise—external trade enterprise—commercial agent—international market. There always is an intervening "separating layer" between the production enterprise and the international market. Because the vast majority of trade opportunities must be handled through foreign trade companies, some important information takes a long time to be transmitted to the production enterprise, directly forfeiting a number of possible opportunities to react to the market in a timely fashion. Moreover, this type of contradiction in the linkup between production and sales takes away the organic links between Chinese textile producing enterprises and foreign sellers and buyers, causing production enterprises to lose a number of unperceived cost-free foreign technical supports such as product specifications and designs, new product development, equipment, factory design, and quality control. These are precisely the functions that external trade should perform.

(2) The Contradiction Between Centralization and Delegation. The former textile foreign trade control system was centralized to the point of being a very rigid single channel. After simplification of administration and delegation of authority, several localities, one after another, produced a group of textile foreign trade management companies. This type of multi-level, multi-channel dispersed management to a certain extent attacked the traditional rigid "official merchant" base, but it also led to worsening competition between regions and enterprises. The mainly piecemeal contract system along with some inequitable policies caused several localities not to

hesitate in sealing off sources of goods and cutting off markets from one another to fulfill contract base numbers and achieve export foreign exchange retentions in excess of the plan, impeding the formation of a unified national market. Some special economic zone and coastal open zone enterprises use their high foreign exchange retentions and other special conditions one after another to rush to purchase supplies of goods from the interior at high prices, creating a price war for various textile resources such as cotton and silkworm cocoons. Some regions and companies out of a desire for parochial profits fight with one another over markets and over customers and conduct price wars, creating profit runoff and clashes of profitable goods making it difficult to give play to each region's comparative advantage and reducing the efficiency of the state macro allocation of resources, causing the industrial structure of all the regions to tend to be the same. The textile foreign trade system reform falls into the double predicament that "if it is centralized, it will be stifled and if it is delegated, it will become chaotic."

(3) The Contradiction of "Separating" and "Uniting" Industry and Trade. The state monopoly of purchase and marketing of the purchasing system created a longtime division of industry and trade and dislocation of production and marketing, seriously obstructing further exploitation of foreign trade by the Chinese textile industry. After reform, although numerous experiments produced various forms of combined industries and foreign trade, in view of the limitations of the forms themselves, as well as restrictive factors in the industry and trade sectors and in the enterprises and other interrelated factors, it has been difficult all along to realize truly combined industry and trade. A number of combined industry and trade enterprises either are mere formalities or are only combined in their top management and actually are still two separate industry and trade enterprises. And those experimental combined industry and trade, and jointly operated and independently operated enterprises and groups with the flavor of combined industry and trade as soon as they are launched and are in urgent need of support in a relevant area receive totally different treatment than foreign trade enterprises. Not only do they lack funds, but they also lack the corresponding allocations and permits and are severely limited in the business sphere to the point that there is no way that they can even fully manage the products that they themselves produce. The vast majority are only allowed to manage the three types of high foreign exchange cost products that the foreign trade company is too busy to attend to. For example, the core member enterprises of the Shanghai Shenda [3947 6671] Group have become a close-knit entity and their annual output value reaches 600 million yuan, but the products that they are permitted to manage make up only 4 percent of their gross value of output, so they have no choice but to continue to be controlled by the foreign trade enterprise. Combined industry and trade has fallen into the predicament of "wanting to be separate being unfeasible and wanting to be united being impossible."

(4) The Contradiction Between Earning Foreign Exchange and Subsidies. Profits and losses from Chinese textile foreign trade for a long time have been the burden of the state treasury, which has resulted in distortion of resource allocations, and emphasis on earning foreign exchange rather than performance. After foreign trade reform, especially the foreign trade contract management responsibility system, the financial contradiction shifted from the central government to the locality. Not only did this tend not to be a turn for the better, but, on the contrary, it became progressively more serious. Because China still relies mainly on the purchasing system, production enterprises are not conversant with world market quotations and lack the guidance of timely and accurate information. They still set up production in the traditional manner according domestic market criteria. As a result the products do not satisfy the needs of the market and are of low grade in addition to being of low value and unable to be sold at a good price. But at the same time, in recent years the state has frequently extensively raised the prices of agricultural byproducts such as cotton and adjusted the prices of important means of production as well as the prices of such things as energy and communications and transportation, causing production costs to rise year after year. Because the selling prices cannot go up, it causes quite a few textile export losses to increase greatly. Textile exports fall into the vicious circle of "if you want more foreign exchange earnings, you need more subsidies and if subsidies are reduced, foreign exchange earnings decline."

From what was described above we can see that despite the continuous exploration and pursuit of textile foreign trade system reform, the fundamental problems have not been solved and reform has not made any outstanding progress at all. Moreover, as some old distortions are rectified, they often produce new distortions. In addition, the high growth rate of Chinese textile exports in recent years largely reflect the effects of the transition from an almost totally closed to a somewhat open situation. They are the comparatively easily achieved gains of the initial stage of opening up. But balanced against general international textile trade standards, China's present textile foreign trade system still is a low efficiency system. So, it is essential to continue to pursue and intensify textile foreign trade system reforms. Otherwise the growth rate of textile exports could easily slow.

II.

Further intensifying textile foreign trade system reform should lay particular emphasis on shifting the entire business management system to a "quick reaction" mechanism centered on the goals of "responsibility for profits and losses, open management, combined industry and trade, and promoting an agency system." In accordance with the characteristics of the world textile trade as well as the general pattern and organization of international trade, we should rationally restructure China's textile export organizational system. We can consider

beginning with adjusting and improving certain things that affect the economic levers and economic environment of textile foreign trade. On the basis of rectifying various problems produced by the previous simple reliance on "opening up" to conduct reforms, we should promote shifting the orientation of textile foreign trade enterprises from multiple head administrative control to trade unified coordinated control. By establishing a stable trade environment, a healthy market system, and self-managed enterprise groups, we can gradually use market mechanisms as a basis for resource allocations in place of the present mainly administrative method of resource allocation. The specific concepts are:

1. Construct a Sound Organizational System for Textile Exports and Improve Internal Coordination Mechanisms

We propose constructing an upper, middle, and lower level textile export organizational system built around the general goals of textile foreign trade system reform to strengthen the macroeconomic balance and control mechanisms of the textile foreign trade system to restrict wanton behavior of enterprises, stir up the enterprises' internal dynamics, and increase their competitive capability to adapt to the international market.

The top level of this system would be the present Ministry of Foreign Economic Relations and Trade. It has the authority for unified control of foreign trade of the state textile trade (of course, it also includes other trades). Its controlling authority should be limited to the category of macroeconomic policy determinations and macroeconomic management and not specific matters, i.e. researching and formulating such things as general and specific textile foreign trade policies (policies by nation and multilateral trade policies), and rules and regulations; approving the establishment of textile foreign trade organizations and enterprises; being in charge of verifying textile import and export licenses and allocation control regulations; and representing the Chinese government in formulating agreements with relevant international trade organizations.

The middle level would be semi-official citizens' organization with authority and legal status and distinct from government departments. We can give it the tentative name Textile Import and Export Chamber of Commerce. It would be an intermediate organization between the government and the enterprise and between foreign and domestic firms responsible for coordinating all textile industry exports and corresponding product production and promoting and developing overseas textile trade. Its specific functions would be: to establish a sound system for registering all textile import and export organizations and to take responsibility for unifying relevant controls; to take responsibility for distributing and controlling allocations to localities and all industrial and trade companies and individually-run enterprises; to supervise, promote, and inspect all local and enterprise export operations and completion of assignments, and develop, coordinate and resolve relevant textile export

issues; to take responsibility for handling all commercial consultations and provide the latest trade and informational data and set up exchanges of surveys, studies and information on the international textile market and help to coordinate transactions.

The lower level would be mainly an operational channel and an operational diversifier to promote direct interfacing of production enterprises with the international market. It could specifically concern itself with: the procedures and unified management of the large volume of primary resource commodities (such as second grade yarn and second grade cloth) and some government agreement textile trade varieties retained in the purchasing system by specialized foreign trade companies with a special permit. The vast majority of other textiles would gradually be shifted from the purchasing system to the agent system or self-managed exports. As regards to textiles with a limited allocation on the international market, issue allocations and operating permits to enterprises with the operational capabilities. Open textiles can be freely managed by every type of enterprise with management authority. Good quality textiles produced by rural enterprises also should be gradually brought into the export system. Now, for the time being they can mainly use agents for exports.

Briefly, through reform we should gradually form a multi-directional textile foreign trade management system of different categories and different levels and encourage specialized foreign trade companies that are so equipped to develop into conglomerates and groups.

2. Gradually Put Into Practice a Foreign Trade Import and Export Agency System Operated Mainly by Consignment Units.

To help to expand textile exports and improve overall economic performance, we can learn from the experience of Shanghai's industry-wide agents and gradually put the agency system mainly operated by consignment units into practice throughout the nation., unifying responsibility and authority and making the consignment unit responsible for profits and losses and having economic responsibility mainly fall to the consignment agent to fully arouse enterprise and staff enthusiasm to develop exports. Specific suggestions are:

(a) The consignment unit should participate in the foreign negotiations and transactions, ratify prices, and have autonomy. The agency should provide various types of services, handle import and export tasks, and collect commissions in accordance with regulations.

(b) We should abolish the special operating authority of specialized foreign trade companies (with the exception of those related to the national economy and the people's livelihood and large volume textiles and government trade agreement products that are strongly competitive on the international market), and the choice of whether they should be handled through specialized foreign trade companies and through which foreign trade company they should be handled should be left to the enterprise.

Thus, the consignment unit (enterprise) could make the optimum choice of the agency, including a foreign trade company and a combined industry and trade company, or even an enterprise or another company with foreign export authority.

(c) The consignment unit and the agency should sign an economic agreement and clarify everyone's economic responsibilities and share in economic benefits.

3. Equitably Distribute Textile Allocations

We propose that the state renew and revise the textile export allocation control system and the Ministry of Foreign Economic Relations and Trade and the Ministry of Textile Industry can consult with localities and such organizations as foreign trade companies and textile enterprises for their suggestions and establish unequivocal administrative regulations and select optimum textile allocations. We envision that allocations still will be annual and each time will be valid for only a year. But foreign trade companies or combined industry and trade companies and self-managed enterprises concerned with managing textiles would all be authorized to make application. Before they make their application, they must first take care of procedures at the textile import and export chamber of commerce. Those that meet the conditions, when they pay the annual fee, can then receive an allocation.

The specific allocations could be based on past actual exports of the requestor and which enterprises certain types of export textiles would be allocated to for export of those products to relevant overseas markets would be reviewed from year to year. Taking into consideration the circumstances, the annual allocation of an enterprise that has difficulty maintaining export results could be trimmed or even eliminated and the allocation of new and developing foreign exchange earners with relatively good performance could be gradually increased. To make it easier to review and prevent fraud, relevant enterprises must submit documentation of their export results and use of allocations to the chamber of commerce. In addition, we should permit compensatory transfer of allocations to avoid waste. This way not only would provide flexibility to the entire textile export industry and let the firms with a shortage of allocations have the opportunity to receive allocations, but it also would strongly stimulate the export of high value added products and improve composite economic results from the use of allocations. Beginning from the perspective of greater control, all allocation transfers must be registered with the chamber of commerce. Otherwise, they would receive administrative sanctions such as not receiving an allocation or rescission of their export license.

4. Gradually Eliminate Subsidies

In view of the fact that subsidizing textile export losses causes an increasing burden on the state treasury, we propose that the state gradually eliminate textile foreign trade subsidies to encourage enterprises to become autonomous as quickly as possible and make the market

with responsibility for their own profits and losses the main stay, and pursue reform of the textile foreign trade system. We could specifically consider changing retention of a set amount to retention of foreign exchange on hand, and at the same time combine promotion of the agency system with gradual elimination of subsidies. Certainly, in the transition period, we could temporarily implement a system of specified subsidies for a certain number of important types of goods and "hidden subsidies" should be changed to "open subsidies." They should be limited to only intergovernmental agreement types of goods and those important types of goods that presently have high export costs and rather large losses and must be exported. We propose that the state review these categories of textiles and the specified subsidies every year and calculate a planned appropriation for a specific period of time and at the end of the year recalculate it based on the enterprise's actual exports. In principle we should implement a system whereby whoever receives foreign exchange and whose losses are subsidized is approved and appropriated from the central treasury for all textiles under unified national management and by local treasuries for the locally managed textiles. Excessive losses would not be subsidized and reduced losses could all be retained, with enterprises freely circulating the funds at their disposal. The enterprise would be responsible for profits and losses on all additional export textiles through a method such as the agency method.

5. Continue To Improve and Intensify Various Current Experimental Forms

Various localities in accordance with what is appropriate to their actual situation, have adopted different ways and means to further conduct and improve various experimental forms. For example, Shanghai conducts the dual line contract agent system. Although it has made some progress, it should be further intensified to strive for a definite breakthrough of direct participation in such foreign marketing procedures of the industry as negotiations, price setting, and signing of agreements. Other regions also can learn from Shanghai's experience and gradually broaden the experiment. As regards to those enterprises or enterprise groups that already have approval to manage their own exports, they should be permitted to manage all of the products that they produce, and be given equal treatment with specialized foreign trade companies in such aspects as allocations, licenses, and funds, and an impartial mechanism should be established. On that basis, we should rely on export producing enterprises to actively promote the growth and development of enterprise groups and gradually form a batch of large-scale textile exporting group companies centered on leading export products. These group companies would be producers as well as managers, and would be very competitive on the international market and would not be just the present compensatory businesses with small capital. In addition, we can consider the regional experimental industrial self-management that matured under conditions in Shanghai, because it

not only has the comprehensive advantage of the continuity and specialization of the large-scale production system, but also truly has also assumed substantial functions corresponding to the economy. At the same time, several Shanghai specialized textile foreign trade companies have established their own export production base. Exports of their products make up 44 percent of the total. So, we should conform to this trend to quicken the pace of textile foreign trade system reform.

Briefly, reform of the textile foreign trade system is inevitable, but to carry out a systematic program we must cultivate a total concept and conduct a complete set of multidirectional reforms to achieve complete and optimum results.

Argument for Limited Sovereign Immunity in International Commercial Disputes

91CE0511A Beijing ZHONGGUO SHEHUI KEXUE
[SOCIAL SCIENCES IN CHINA] in Chinese No 2,
10 Mar 91 pp 187-196

[Article by Lin Xin (2651 2946), born 1926, research fellow, Law Institute, Chinese Academy of Social Sciences, and Li Qiongying (2621 8825 5391), female, born 1929, assistant translation editor, Latin-American Institute, Chinese Academy of Social Sciences: "The Question of Sovereign Immunity of the State in Commercial Activities in Foreign Countries" Responsible editors for this article: Zhang Zhiming (1728 1807 6900) and Chen Huigu (7115 1979 6253)]

[Excerpts] Some typical cases in international relations serve as material for the present article, which discusses the development of the principle of the state's absolute sovereign immunity and the principle of limited immunity in commercial activities in foreign countries. The article presents the opinion that because a majority of countries now accept the principle of limited sovereignty, it has become extremely important to determine the criteria for the decision which foreign contracts or activities in foreign countries are commercial contracts or commercial activities. It has become a trend in such cases to adopt a twofold criterion considering both purpose and character of the action involved. The authors believe that, starting out from the need to adhere to the principles of equality and fairness and from the objective of promoting economic exchanges with foreign countries, China too must accept the principle of limited immunity. The article goes on to make statements as to the independent civil responsibility which the different individual entities must bear when the state participates in foreign commercial activities, and suggests, furthermore, that the "Draft Regulations Governing the Jurisdictional Immunity of the State and Its Assets," which are now being discussed by the Legal Commission of the United Nations, should also prescribe appropriate and distinctive rules.

In present-day international law, more and more problems arise in the area of private international law and

public international law, and one of these problems is the state's sovereign immunity. With the increase of the state's foreign commercial activities, this problem has become an important issue in private international law as well as in public international law, an issue that is being paid close attention. [passage omitted]

IV.

China has so far not yet passed any laws on the question of the state's sovereign immunity, and has also had no judicial practice in this area. China's jurists specializing in international law have more or less taken one of the following two views in this matter: some are in favor of absolute immunity, and some are in favor of limited sovereign immunity.

Those who favor absolute sovereign immunity believe that it is not feasible to divide the state's actions into public law acts (sovereign acts) and private law acts (commercial acts), because the functions of the state in its economic management are public law actions. Any dispute that arises in the state's foreign commercial activities, should, according to the proponents of this view, be resolved through diplomatic channels or through voluntary waivers of immunity by way of treaties or agreements.

We, the authors of this article, are in favor of the principle of limited immunity. We believe, that since the countries of the world have different social systems, or are countries with the same social system but are of different economic standing, it is no wonder that they all hold different views of state activities. However, this fact must presuppose that it should not affect the resolution of commercial disputes between different countries. As the result of greatly increased international economic contacts, possibilities for disputes to arise from foreign economic activities have equally increased greatly. These disputes might be large or small, and to solve them one by one through diplomatic channels would be an actual impossibility. Resolving them by way of voluntary waivers of immunity in treaties or agreements would, on the other hand, also amount to accepting the jurisdiction of foreign lawcourts and having foreign lawcourts decide in resolutions of disputes, which, in actual fact, also amount to accepting the principle of limited immunity.

Denying the state's jurisdictional immunity for foreign commercial activities is also justified from the standpoint of the general principles of law. Everybody knows that commercial activities are civil activities, and civil activities must adhere to equality and fairness as the legal principle generally accepted throughout the world. This principle is also confirmed and clearly prescribed in the "General Rules of the Civil Code of China" and in the China's "Foreign Economic Contract Law." Article 3 of the "General Rules of the Civil Code" reads: "The status of parties in civil activities shall be equal." Article 4 prescribes: "Civil activities shall follow the principles

of voluntariness, equity, equal value and with compensation, honesty, and good faith." Article 3 of the "Foreign Economic Contracts Law" prescribes: "Contracts shall be concluded in accordance with the principles of equality and mutual benefit, and reached by unanimity through consultation."

According to the principle of equality and fairness, the state that engages as one party in a foreign commercial activity must be in a position of equality in relation to the other party (a foreign natural or legal person). If the state were to enjoy jurisdictional immunity in such activities, the other party would be placed in an unfavorable position. The latter, feeling in this way deprived of protection for its legitimate interests, would then of course seek other channels for its commercial contacts, with the result that economic exchanges between countries would certainly be adversely affected. This would be of no benefit to either party.

While accepting the suggested principle of limited jurisdictional immunity, we also remain faced with the problem of what criteria to use in determining which actions of the state are sovereign acts and which are commercial activities. Judging by present conditions, we suggest that in determining which acts of the state are sovereign acts and which are commercial activities, China should also apply the twofold criterion, namely to judge according to the character of the activity as well as according to the purpose of the activity in question. This will allow a fairly accurate determination. Apart from this, there is the problem that countries which presently follow the principle of limited immunity have their own lawcourts determine which are sovereign acts and which are commercial activities according to their own national laws. This method is to some extent, of course, unequal and unfair, and further studies are necessary to resolve the problem in a way that will be acceptable to the entire international community.

We believe that according to the diverse forms of the state's foreign commercial activities, it is necessary to further differentiate as to the civil responsibilities in these activities. There are three forms of the state's foreign commercial activities:

- 1) The state engaging directly in foreign commercial activity;
- 2) a sector of the government engaging in foreign commercial activity;
- 3) a state-owned corporation engaging in foreign commercial activity.

In all, these activities, the state, the government component, and the state-owned corporation must each bear its own civil responsibility, and must not try to shift responsibilities to others.

In view of the current practice in international economic contacts, it is particularly necessary to distinguish here between the civil responsibility of state-run corporations and the civil responsibility of the state itself. There is a difference between foreign commercial activities by state-owned corporations set up by the state and direct foreign commercial undertakings by the state itself.

State-owned corporations are independent economic entities; they are generally legal persons that have an organizational setup independent of the state organization, possess independent assets entrusted to them by the state for their operations, and, furthermore, bear independently civil responsibility based on these assets. It is for these reasons not permissible to impute the civil responsibility of state-owned corporations to the state. Inversely, it is also not permissible to impute the state's civil responsibility to the state-owned corporations.

U.S. lawcourts have passed decisions in a case of this nature. In September of 1976, the former ambassador of Chile to the United States, Orlando Letelier, and the wife of his aid, Mrs. Moffitt, living in exile in the United States, were assassinated by special agents of the Chilean Government. In 1980 representatives for Letelier and Mrs. Moffitt sued the Republic of Chile in the U.S. District Court for the Special District of Columbia for violation of human rights. The Chilean Government refused to appear in court, and the court passed default judgment against them, ordering the Republic of Chile to pay to the relatives of the dead a certain sum as compensatory and punitive damage. The plaintiff asked the U.S. District Court for the Southern District of New York for execution of the judgment by attaching property of the airline company owned by the Chilean Government. This was approved by the Federal Court for the Southern District of New York. The Chilean Airline Company thereupon appealed this decision to the U.S. Second Circuit Court of Appeals. In November of 1984, the Circuit Court of Appeals gave its decision, in which it considered that the sum of compensation in question must not be paid out of assets of the Chilean airline because that company is an independent legal entity independent and outside of the Chilean Government; its assets are not property of the Chilean state in the sense of the U.S. "Foreign Sovereign Immunities Act."¹

There is no country that will permit to impute civil responsibility of factories in that country (even if they are state-owned factories) to the state in question. Similarly, it is not permissible to impute civil responsibilities of state-owned trade corporations to the state in question. Sompong Sucharitkul, one of the original drafters of the UN International Law Commission's report on the special question of jurisdictional immunity of countries and their assets, pointed out: "It is not permissible to mix up the responsibility of the state and the responsibility of companies and enterprises in foreign trade affairs. It is a case of mistaken identity when a proceeding is directed against the state, rather than against the particular corporation or other entity, even though all the property of these corporations may belong to the state."²

Next, there is also the need to differentiate between civil responsibility of government organs and civil responsibility of the state. Each government organ has its own functions and responsibilities. It is in accordance with the norms of international law that certain government

organs are authorized to conduct foreign commercial activities. That infers that such government sectors not only enjoy civil rights in these activities, but that they must also bear civil responsibilities. It is not permissible to impute the civil responsibility of government sectors to the state, nor is it permissible to impute the state's civil responsibilities to government sectors.

U.S. lawcourts have also decided a case of this nature. According to an agreement between Somalia and the U.S. Agency for International Development, the United States arranged with the Transamerican Steamship Corporation, within the foreign assistance program administered by the United States, the shipment of a cargo of corn from the United States to Somalia. After unloading the grain, the Somali Shipping Agency (an organ of the Somali Government) detained the vessel of the Transamerican Steamship Corporation for a few days and would not release the ship before the payment of certain charges. The Transamerican Steamship Corporation demanded through diplomatic channels that the Somali Government pay compensation, but without success. The shipping company then sued Somalia and the Somali Shipping Agency in the U.S. Federal District Court for the Special District of Columbia, demanding compensation. Somalia contended that according to the provisions of the U.S. "Foreign Sovereign Immunities Act," a U.S. lawcourt has no jurisdiction in this case. In July of 1984 the court decided that Somalia's participation in the foreign assistance program of the Agency for International Development was an act of governmental nature, and that Somalia should enjoy jurisdictional immunity in this case, so that the case against Somalia had to be rejected, but that the Somali Shipping Agency did not enjoy jurisdictional immunity because it carried out commercial activities which had a direct effect on the United States, so that it was in order to continue legal proceedings against the Somali Shipping Agency.³

Furthermore, it is also not permissible to impute the civil responsibility of one state-owned corporation to another state-owned corporation of the same country, because each state-owned corporation is an independent economic entity, each having its own assets and each bearing civil responsibility in accordance with its own assets. Sompong Sucharitkul also asked: Is it permissible to seize the assets of a state railway line, simply because the state-run airline of the same country has failed to pay the airport tax, or vice versa? He said: "If such were the case, then the state (whether developed or developing) would be in a much more disadvantageous position than multinational corporations which own, manage, or control various enterprises, each with its own limited liabilities and assets."⁴

In view of all these facts, It is our suggestion that the "Draft Provisions Governing Sovereign Immunity of States and Their Assets," now being discussed by the UN Commission for International Law, should also differentiate as to the civil responsibility in these activities according to the different forms of foreign commercial activities of states, having states, government sectors,

and state-owned corporations each bear their own civil responsibilities. Doing so will not only be beneficial for the normal contacts between states, but also beneficial for the smooth development of international economic relations.

Footnotes

1. See *Decisions of the U.S. Federal Courts of Appeals*, second series, Vol 748, p 790.
2. See *AMERICAN JOURNAL OF INTERNATIONAL LAW*, No 2, 1989, p 418.
3. See *Decisions of the U.S. Federal District Courts, Supplement* Vol 590, p 968.
4. See *AMERICAN JOURNAL OF INTERNATIONAL LAW* No 2, 1989, p 418.

Contemplation of Greater Taiwan Investment in South Fujian

91CE0518A Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
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[Article by Zhang Jianping (1728 1696 1627): "Strategic Study on the Use of Taiwan Capital in the South Fujian Delta Region"]

[Text] The south Fujian Delta centering around Xiamen, Zhangzhou, and Quanzhou holds an extremely important position in Fujian Province's coastal economic development strategy. At the present time when Fujian-Taiwan economic links are in a transitional stage between indirect trade and investment to direct trade and investment, this important feature is more apparent. How to apply Taiwan's successful experience in economic development and its digestion and absorption of capital to determine a model for development of the south Fujian Delta region; how to develop the advantages that the region enjoys in geo-economics and human links to bring in Taiwan capital, technology, and human talent to take part in developing and building that region; and the present state and prospects for future development of the regions' economic links with Taiwan, etc. are matters about which people inside and outside China concerned with the economic take-off of that region are concerned. They are also difficult points that this article intends to explore with everyone.

1. Opportunities for Building a New Taiwan and South Fujian "Golden Triangle" Cooperative Framework

Fujian and Taiwan are joined by a single body of water; movement between the provinces is convenient; there is a long history of trade between the two; and a long standing and established intercourse between peoples exists. Since China's institution of the opening to the outside world, and particularly following the change of "one country two systems" from a political idea to a national policy, economic and trade cooperation

between the two provinces has developed greatly. People-to-people trade and intercourse on a small scale has gradually developed into investment and trade cooperation on a large scale. In view of the current international and domestic situation, in particular, conditions favor the building of a new cooperative structure between Taiwan and the south Fujian "golden triangle."

(1) Analysis in terms of the situation regarding economic development of the world and the Asian-Pacific region in the 1990's. One overall tendency in world economic development today is as follows: The industrial structure of every country is developing in the direction of maturity and diversification. In the long run, however, these many countries will not develop around a large economic power or bloc axis, but rather several axes will emerge; i.e., several economic powers or blocs will emerge. Very possibly, development will be through plural axes. This is exactly the same in its connotations as the "high division of labor in production" as a mark of modernization that the renowned German economist Max Weber expounded during the late 19th and early 20th centuries. Division of labor as used here not only includes a division of labor in industry and a regional division of labor, but also includes a division of labor in investment and savings. Conforming to this trend, a pattern of regional economic blocs is in process of forming. The European Economic Community will be the most completely integrated in the world. In North America, the free trade agreement concluded between the United States and Canada forms the United States-Canada free trade area. In the Asian-Pacific region, calls for the establishment of an Asian-Pacific economic community are becoming louder with each passing day. Newly industrialized countries and territories will use their high speed industrialization and economic development to contend with the United States and Japan. At the same time, as a result of the rise in labor costs, the "four small dragons" are gradually shifting their labor-intensive, raw materials-intensive, and energy-intensive commodity production bases to low cost southeast Asia and coastal China areas. The foregoing is the international background that Taiwan and the south Fujian "golden triangle" face in cooperative economic relations.

(2) Analysis in terms of the domestic climate for economic relations between Taiwan and the south Fujian "golden triangle." During the past 10 years of reform and opening to the outside world, China has steadily increased economic relations with the outside world, and the amount of direct foreign trade investment has steadily increased. Foreign traders directly invested \$1.285 billion yuan in Fujian Province, of which \$182 million, or 14 percent came directly from Taiwan. Since the Taiwan removal of restrictions on visits to the mainland to visit relatives, Taiwan capitalized enterprises in mainland coastal areas have developed rapidly. As the ancestral home of Taiwan compatriots, the south Fujian economic development zone has seen rapid economic development in recent years. The investment

climate has also markedly improved, the region becoming a hot spot for Taiwan trader investment. With the ever increasing influx of Taiwan capital, a large special economic zone in which Xiamen is in the center and Zhangzhou and Quanzhou are on the flanks has appeared. As the country's most concentrated region for Taiwan capital, the south Fujian Delta enjoys State Council mandated authority to serve as a comprehensive pilot project for opening to the outside world. As a place for direct trade between Taiwan and the mainland, it may be regarded as an experimental zone for implementing "one country two systems." Whether it produces anticipated economic and social results has a bearing not only on the region's economic takeoff, but also on the future economic and political framework following Taiwan's return to the motherland, and it will produce far reaching effects.

(3) Analysis in terms of the south Fujian economic zone's important strategic geographical position and outstanding economic conditions. The south Fujian economic zone is a regional economic partnership association centering around the three neighboring cities of Xiamen, Zhangzhou (now called Xiangcheng Prefecture), and Quanzhou (now called Licheng Prefecture). It contains 20 counties and cities, covers an area of more than 24,000 square kilometers, which is one-fifth the entire province, and is equal to seven-tenths of the area of Taiwan. It has a population of more than 10 million, 36 percent of the total for the province. It is located in a sub-tropical coastal region on a delta formed by the Jiulong Jiang and the Jin Jiang. Thus, the south Fujian economic zone has become a runoff plains area whose natural conditions are superb. Since ancient times, it has been one of Fujian province's richest areas. Following reform and opening to the outside world, Xiamen City got off to a fast start with state-owned large- and medium-sized enterprises, a fact about which it is proud. Quanzhou City is renowned as a place where foreign exchange-earning township and town enterprises have blossomed everywhere. Zhangzhou City is known far and wide for the rise of its export-oriented agriculture. This region's industrial and agricultural output value accounts for more than one-third the provincial total. This region together with the Zhu Jiang delta, and the southern part of Taiwan is a center of world sea and air transportation. It is an important integral part of the "gold coast." The lovely islets along the coast from north to south (178 nautical miles from Keelung and 194 nautical miles from Kaohsiung in Taiwan), and the numerous natural ports including Xiaocuo, Quanzhou, Xiamen (156 nautical miles distant from the port of Kaohsiung in Taiwan), as well as Shenhui, Chongwu (94 nautical miles from the port of Taichung in Taiwan), Anhai, and Dongshan face the large Taiwan ports of Keelung, Taichung, and Kaohsiung forming fine shipping conditions for trade and intercourse between both sides of the Taiwan Strait. This region enjoys exceptional advantages in geographic location and climatic conditions, as well as in products and intellect.

(4) Analysis in terms of developments on both sides of the strait and the development of economic contacts between Fujian and Taiwan. Since the 1980's, the Taiwan economy has been seriously dependent on overseas markets. In its traditional markets—North America and West Europe—it is now facing serious quota restrictions. The international market climate it is in is extremely grim, and the sectors in which the new trade protectionism poses the greatest threats are the clothing, textile, and shoe industries. It happens that these sectors and other light industrial exports are the "engines" that presently power Taiwan's economic growth, and these sectors have all become "sunset industries." The comparative advantages of these labor-intensive industries no longer exist. For example, traditional labor-intensive products such as hats, sweaters, plywood, and electric fans have already lost or are gradually losing their dominant positions in world markets. Numerous medium and small enterprises in the manufacturing industry have gone bankrupt or shifted to other lines. Consequently, Fujian coastal areas with low land prices, low wages, and low taxes, plus preferential policies and a special kinship, particularly the "golden triangle" in south Fujian, cannot but find favor among Taiwan industrial circles. In 1989, 239 Taiwan capitalized projects in the project were newly planned, and \$540 million in negotiated Taiwan capital was taken in. This was 3.1 times again the total amount of Taiwan capital taken in during the previous five years, and it accounted for 58 percent of the total amount of foreign capital used for the year. It also accounted for more than one-half the total amount of Taiwan capital taken in by mainland coastal provinces.

2. Ideas and Development Plans for a New Economic Cooperation Structure Between Taiwan and the South Fujian "Golden Triangle."

(1) First is the establishment of a south Fujian Delta economic zone with Xiamen at its center and Zhangzhou and Quanzhou on each flank. An industrial system on a substantial scale whose technology is fairly advanced, and that has virtually all categories of industry is to be concentrated at Xiamen to form a window for electronics and the textile industries, port industries, and high technology. In addition, efforts will be made to develop business, tourism, banking, and real estate, thereby moving to a higher level, consolidating its turnkey position in the area, and sparking the regions' economic development. On the two flanks, Quanzhou and Zhangzhou will have to make the most of their local advantages to advance the region's economic development. Quanzhou can emphasize the development of foreign exchange-earning processing industries, technology-intensive industries, and tourism, and Zhangzhou should actively develop food processing industries, beverage industries, and foreign exchange-earning agriculture to form a partnership of scientific research, production, and sales for the expansion of the diffusing role of each individual area.

(2) Near-term strategic goals of cooperation between the south Fujian Delta economic development zone and Taiwan. Since there are few key state enterprises in the south Fujian Delta, and since most enterprises are medium or small in size, problems have long existed there of many old plant buildings, many old products, and stereotyped administrative and management methods. The labor productivity rate is fairly low. Taiwan, however, has rich experience in management, and in tapping the potential of medium and small enterprises. The preferential investment policies for Taiwan compatriots that the State Council and Fujian Province have drawn up, as well as the manpower and land that the south Fujian Delta development region have provided have caused the concentration in this area of more than one-third the medium and small Taiwan invested enterprises in the mainland. This tide of medium and small enterprise movement to the mainland, particularly to the south Fujian Delta, has had a profound effect on contracts and cooperation among large, medium and small plants in Taiwan's industrial structure. Ever since 1987, numerous medium and small enterprises have moved away from traditional contract relationships with local Taiwan plants to off-shore processing and cooperation in the south Fujian Delta. These changes have also resulted in a multiplication in the contracting system of large Taiwan plants that formerly had close contracting relationships with medium and small Taiwan enterprises. The same relationship has developed with the south Fujian Delta, thereby bringing about a new regional division of labor. Consequently, the near-term goals of the south Fujian Delta economic development zone in cooperating with Taiwan can be to make that zone a production base with Taiwan being a capital market, a technology market, and a commodity market for the building of externally oriented enterprises in which both ends of the production process are outside the region (meaning that Taiwan firms provide their own capital, technology, management, principal raw and processed materials, and foreign marketing channels) in the establishment of an embryonic benign cycle economic structure.

(3) Medium term strategic goals of cooperation between Taiwan and the south Fujian Delta in economic development. The near term goals are to serve as a basis for taking in and digesting capital and advanced technology from Taiwan and beyond. This is for the purpose of enabling a tremendous improvement in the organic structure of industry in the south Fujian delta, bringing about a transition from the first stage of a combination of export orientation and import substitution to an export orientation strategy to achieve a leap in the export structure from primary products that are labor intensive and simple industrial wares, to technologically sophisticated capital (and technology) intensive industrial wares. Not only should the export commodities hold an appreciable share of the Taiwan market, but they should also enter international markets. At this stage, it is hoped that the economic cooperation between Taiwan and the zone

will move from being "complementary" to being "intermingled" for the formation of an overall economic community in which the market economy is paramount, that has the characteristics of "one country two systems," and in which a shared relationship of mutual advancement and common prosperity are more marked. At this stage, there should be a great increase in the role of the zone in diffusing its achievements to other parts of the province, consciously spreading the framework of the zone's economic cooperation with Taiwan throughout the province. The small investment climate used in building the south Fujian Delta open zone will then be translated into the transformation of Fujian Province's large investment climate to take full advantage of Fujian Province's economic advantages and its attraction for external capital, particularly Taiwan capital, Taiwan-capitalized enterprises blossoming everywhere in the province as a result. Not only will this make Taiwan-capitalized enterprises play an exemplary role for domestic enterprises, but it can also have an "exemplary effect" on enterprises in Taiwan Province, increasing the centripetal force of Taiwan toward the mainland.

(4) Long-range goal of cooperation between the south Fujian Delta and Taiwan in economic development. The goal is to consolidate the economic growth and the successful experiences of the first two phases to fashion the zone's superiority in industries and sectors, and to develop it into an export base that produces distinctive technology-intensive and knowledge-intensive products. At the same time, the foreign investment structure will tend toward pluralization, more capital and technology at advanced world standards entering the zone. When the time comes, Taiwan capital as well as the export processing industries that serve Taiwan capital, will become supplementary. The region has prospects for becoming a regional financial center that makes wide use of debentures issued to international financial markets to bring in foreign capital, and that uses superior products as a turnkey for founding entrepreneurial blocs, building its own external marketing channels to occupy a place in international markets. In time, the region's trade with Taiwan will change from the "intermingled type" to the "competitive type," meaning that trade commodities will move in the direction of becoming "inter-industry trade." Under the coordination and supervision of both parties, competition will regulate economic development and the flow of capital to insure the optimum organization of the production elements of resources, technology, and capital. This will promote the development of both parties' high technology industries, and shape a bilateral and equal trade partnership through fair competition. In this way, a large three-sided common market made up of western Fujian, southern Jiangxi, and eastern Guangdong with Taiwan capital as the hub, Xiamen as the turnkey, and the south Fujian delta as the main entity will come into being.

Strategic Emphasis in the Implementation of Strategic Thinking

Realization of this strategic thinking will require the vigorous intake of Taiwan capital, the establishment of a Taiwan trader investment zone, readjustment of the industrial structure, greater building of agriculture, and improvement of basic transportation and port facilities as the strategic emphasis for the economic development of the south Fujian Delta region.

(1) The favorable opportunity for the development in tandem of Haicang in Xiamen and Taiwan capital should be seized to enhance the construction of basic facilities in the Taiwan trader investment zone. Unified planning and a rational layout will be required in operating the Taiwan trader investment zone to attract Taiwan capital. In addition, extremely close attention must be given to the "grafting" of technology and equipment from Taiwan investors to existing enterprises. Special efforts must be made in the near term to do all possible to provide favorable conditions to attract the investment of Taiwan businessmen in technical cooperation and the development of food and beverages, pharmaceuticals, textiles, and building materials.

(2) With the influx into the south Fujian Delta region of a steady stream of Taiwan capital and technology, the region is bound to enter a stage of industrial upgrading. In the near term, the emphasis should be on principal existing industries, structural readjustments made centering around readjustments of their product mix and the organizational structure of enterprises. This is particularly true for food and beverage, pharmaceutical, textile, and electromechanical industries. Industries that mostly develop raw and processed materials should evolve mostly in the direction of developing processing and assembly industries, which is to say that they should do a high degree of processing, thereby increasing the competitiveness of products in both domestic and foreign markets. The support capabilities within industries should be enhanced so that they better complement Taiwan industry for a better "meshing" of the zone with Taiwan industry.

(3) The attraction of Taiwan capital will require that transportation, communications, and basic facilities keep pace. The "golden triangle" of south Fujian is a hub and a forward area that links Fujian to the rest of China and the outside world. Therefore, the existing railroads, highways, water transportation, and aviation networks must be further improved, more complementary facilities built. In addition, more basic water, electricity, and communications facilities must be built.

(4) Simultaneous with the upgrading of industry, the region's agricultural economy must be guided to a new stage of external orientation. This means the organization of an agricultural economic pattern of agricultural product processing and production based on international market needs and oriented toward the export of agricultural products, translating the south Fujian Delta

regions natural superiority in agricultural production into product superiority and thence into commodity superiority.

Current Status and Future Outlook for Taiwan Investment in the South Fujian Delta Region.

Relations between both sides of the strait have eased since 1987, and shrewd Taiwan entrepreneurs have returned to their homeland in a steady stream, actively investing in the building of factories in the region. This has produced a Taiwan businessman investment craze. Although this upsurge cooled somewhat following the 4 June incident of 1989, a new upsurge occurred in the region marked by the "Wang Yung-ch'ing [3769 3057 1987] "shock" when the Taiwan plastics group began to invest in the Xiamen petrochemical industry on the mainland. Furthermore, the momentum is stronger. As of the end of 1989, the region's true use of Taiwan capital, and its contracted use of Taiwan capital stood at \$250 million and \$650 million respectively, both more than 90 percent of the totals for the province. Of the 388 enterprises approved for investment, more than half have been invested. Xiamen City accounts for approximately 80 percent of the true amount of capital used in Xiamen, Zhangzhou, and Quanzhou.

Ever since 1990, Taiwan capital has continued to maintain a rapid growth momentum in the region. By the end of the first quarter, the cumulative number of enterprises approved for Taiwan firm investment totaled more than 450. This included a first quarter Taiwan firm investment of 48 enterprises in Xiamen and 12 in Zhangzhou. Currently 28 projects in Quanzhou are being discussed and agreements signed. This shows the following trend of development:

First the investing firms have expanded from small enterprises to large corporations and groups in an enormous increase in the amount invested. In 1989, a Taipei financial group and Indonesia's wealthiest man, Lin Shao Liang, invested \$200 million in Xiamen to operate a large petrochemical raw materials and chemical fiber plant. Wang Yung-ch'ing planned to invest another \$7 million to build a large, medium, and small continuous petrochemical industrial kingdom at Haicang in Xiamen. Quanzhou currently has 113 Taiwan invested enterprises (as of April 1990), 17 of which have an investment of more than 10 million yuan. Another 28 projects are in the negotiation and contract signing stages. The final investment will be \$230 million.

Second the investment area tends to be concentrated in a continuous tract and for specialized markets. The outlines of stratified investment have appeared in Xiamen, most technology-intensive and knowledge-intensive investment projects being on the island; a substantial number of capital-intensive projects being located in the Xinglin and Haicang investment areas; and labor-intensive projects gradually spreading to Tongan County. In Quanzhou, most of the Taiwan invested light and textile industries are concentrated at

Jinjiang; clothing electromechanical equipment, and light industrial manufactures used in daily life are mostly concentrated in the Shishi and Licheng areas. Investment projects in Zhangzhou are largely concentrated in the coastal areas of Longhai, Dongshan, and Xiangcheng to form a processing industry belt largely dominated by labor-intensive industries.

Third, contracts tend to be for long periods, and the number of sole proprietorships continues to increase. Prior to 1988, most Taiwan firm investment was for a period of from 10 to 30 years, the shortest being for only five years. Since 1988, Taiwan firms tend to invest for longer periods, the longest for 70 years. Most of the contracts for Taiwan-capitalized investment projects in Quanzhou have been for 15 years and up in Quanzhou, with 12 being for more than 50 years. Of the more than 200 enterprises put up by Taiwan traders in the Xiamen special economic zone, 69 percent are sole proprietorships. As of the first quarter of 1990, Quanzhou City had 33 Taiwan invested sole proprietorship enterprises, or 29.2 percent of all sole proprietorship enterprises in the city.

Fourth is a steady upgrading of products invested in, the level of technology rising. Today, the projects in which Taiwan firms have invested in Xiamen, Zhangzhou, and Quanzhou have developed beyond shoes, umbrellas, ready made clothing, and toys to light industrial wares, textiles, electronics, the rearing of aquatic products, and the designing and manufacture of Chinese computer software and hardware, as well as hotels and real estate. Technology transfers have steadily increased, and the scale of enterprises has become larger and larger. Reportedly, people from Taiwan engaged in shipping and aviation are coming in a steady stream to look at harbors and airports in Xiamen and elsewhere, and to discuss cooperative arrangements.

The foregoing four trends will have to continue before two sides of the straits conduct direct trade and direct investment. In an overall sense, despite the fairly enormous growth of Taiwan trader investment in the region, it is still in a preliminary stage. With the reconstitution of the division of labor pattern within the Asian-Pacific region, as well as readjustments in Taiwan's economic structure during the change over period, during the next three to five years, there will be further growth as Taiwan capital flows into the region.

The outlook for the 1990's is that because of various elements for instability, relations between the two sides of the strait will not be smooth sailing. In trade and economic relations, because they fear that a liberalization will deepen Taiwan's dependence on the mainland economy, the Taiwan authorities stubbornly persist in the "three no's" policy. The "Draft of Interim Regulations For Relations Between People on Both Sides of the Strait," which was drafted not long ago, explicitly provided that there was to be no direct investment, trade, and technical cooperation, or financial dealings. Violators are to be imprisoned. Technically, until such time as

there are attendant regulations, and until there are banks on both sides for financial exchanges, shipping ports, and agencies to mediate commercial affairs, etc., money remittances from business dealings, communications, and legal matters cannot be guaranteed. This situation is bound to have an adverse effect on Taiwan investment and trade in the region. In addition, as far as the region is concerned, economic dealings that rely solely on "ancestral homeland land feelings" will gradually diminish, and dealings that stem from considerations of economic benefit will markedly increase; thus, possibly militating against the regions' distinctive geographic and human advantages. The upsurge in the transfer elsewhere of Taiwan enterprises stems largely from the rise in value of Taiwan currency as well as a deterioration in labor conditions. Proximity to markets and obtaining raw materials are not a principal focus of consideration. Therefore, for the south Fujian Delta region, which lacks resources and which does not have well developed markets, the future direction for attracting Taiwan capital has to be efforts to improve the investment "soft climate." I personally believe the following several actions may be taken:

(1) Building of Taiwan-invested industrial zones in some promontories and connected areas along the coast of the south Fujian Delta; establishment within the region of agencies to examine and approve Taiwan trader investment projects to provide "one stop" examination and approval and services in a "continuous, coordinated process" in accordance with international practice; and use of Taiwan export processing industry production bases in the zone, and the work force in the region to fashion economic circulation between the region and Taiwan. This would take two specific forms as follows: First is the acceptance of orders from Taiwan to be processed and produced in the zone for resale to Taiwan. Second is the use of an export quota for the region, using advanced Taiwan technology and experience to improve the region's product export mix and the degree of processing of export commodities.

(2) Change in the zone's "emphasis on attracting but carelessness about managing" the use of Taiwan capital, channeling the investment of Taiwan capital toward transportation, energy, communication, raw and processed materials, and other bottleneck areas, as well as to advanced technology enterprises and foreign exchange-earning export enterprises. At the present stage, not only is it necessary to encourage township and town enterprises to import Taiwan capital, but key state-owned enterprises in the publicly owned economy should also try to improve enterprise vitality through the stock share system, cooperative ventures with Taiwan firms, and the use of Taiwan capital for the technological transformation of existing enterprises.

The Original Equipment Manufacture (OEM) production method is a form of international economic cooperation used throughout the world. It is a talisman on which Taiwan export commodities relied for their rise and development. It can likewise be applied to the south

Fujian Delta region. The south Fujian Delta's future principal exports—electromechanical products and light industrial manufactures—are of a low technological level and of poor quality. Products exported to earn foreign exchange are primary industrial products of low grade to which little value has been added. In today's fiercely competitive international markets, they face grim competition. With the steady influx of Taiwan capital, the region's future production will become increasingly specialized. This is particularly true for medium- and small-sized enterprises, which will produce only one or two parts for a product. Therefore, in view of the present circumstances, OEM production should be energetically developed to link the region's cheap labor and existing processing equipment with Taiwan's capital, technology, raw materials, intermediate productions, and marketing channels to produce superior products and parts by the region's standards that can enter the international market to increase foreign exchange earnings and enhance the region's scientific and technical advantages and development capabilities, and continue to the creation of our own brand name products.

(4) In order to safeguard the legitimate rights and interests of Taiwan investors, economic regulations bearing on Taiwan that characterize "one nation two systems" should be perfected as quickly as possible. A "Taiwan Trader Investment Enterprise Complaint Coordination Agency" should be established to work conscientiously to find solutions to various difficulties and problems that Taiwan invested enterprises encounter. The production and marketing systems should be improved in accordance with commodity economy needs. Markets for key production elements should be fostered as quickly as possible, including financial markets, foreign exchange regulation centers, means of production markets, and real estate markets. Pilot project work in these regards may be conducted using the Xiamen Special Economic Zone [SEZ] as a center.

During the 1990's the work of making use of Taiwan capital in the region will both face challenges and yield opportunities. The south Fujian Delta region as an "experimental zone" for reciprocal economic benefits on both sides of the strait centering round Taiwan capital and use of the Xiamen SEZ as a turnkey offers food for thought in the sense of the anticipated direct Taiwan investment in and trade with the mainland. Fine opportunities are fleeting. The time has come for putting the building a Taiwan-south Fujian "golden triangle" common market on the agenda for implementation.

Problems Arising in Compensation Trade

91CE0524A Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 3, 30 Mar 91 p 63

[Article by Peng Shaoyi (1756 1421 0001)]

[Text] Since 1978 China has utilized compensation trade to introduce advanced foreign technology and equipment. This method of trade has built and renovated a large number of enterprises. It has played a positive role in raising the technological levels of enterprises, expanding productivity, and accelerating the move toward an externally oriented economy. However, noteworthy problems have arisen between some enterprises and foreign businessmen engaging in compensation trade since China lacks experience in this trade method which has been in use only a short time.

First, we must note the rationality of utilizing compensation trade.

Compensation trade refers to a form of trade in which a seller provides machinery, equipment, technology, or various services in which the buyer agrees to pay off its loan within a certain time period by using products made with the imported equipment, or other products or services. The term of the compensation trade could be three years, five years, or as long as 20 years in the case of large volume business transactions. However, in signing compensation trade agreements with foreign businessmen, some Chinese enterprises often neglect to consider the rationality of the time frame, such that it is too short. As a result the enterprise is unable to meet its obligations. For example, in 1988 a steel plant in a certain province entered into a five-year compensation trade cooperation agreement with a Hong Kong company in which the Hong Kong side would provide \$12.6 million in foreign exchange to import from France a 300,000 ton secondhand electric furnace. The contract stipulated repayment with steel products from 1989. Actually, the imported equipment would not be put into operation until 1991. The enterprise had to borrow \$1.8 million in foreign exchange from the provincial investment bank as of October 1989 in order to meet its contract responsibilities. In 1990 it again was to repay \$4.6 million in steel products; it had no choice but to renegotiate extension of the repayment term with the Hong Kong party.

Second, we must note whether projects are scientific.

The aim of using compensation trade to import foreign investment is to gain the advanced technology and modern productivity of the developed countries in order to accelerate the pace of China's economic construction. Therefore, in selecting projects, we must adopt a strict and steadfast scientific attitude. We will suffer losses unless detailed studies are made regarding China's ability to absorb the imported technology and equipment, whether ancillary domestic funds can assured, whether the equipment can be fully used, and the nature of economic and social returns. For example, a certain marble factory entered into a compensation trade agreement with an Italian trading firm to develop a marble mine in which the Italian side would provide equipment and the Chinese side would make repayments in marble. No detailed feasibility study was made at the time on the contract that was signed between those in charge of the

enterprise and the Italian businessmen. As a result, the project lasted only three months; the foreign side unilaterally pulled out of the agreement based on price and quality issues. Actually, the imported equipment was ill-suited to China's needs. The Chinese party could only roughly process marble and only produce marble materials for further refined processing abroad. Costs were too high to make finished products. The enterprise in question now has ceased production.

Third, we must note the advancement of imported equipment.

Another important element in compensation trade is consideration of how advanced foreign equipment is. At present, in general, there is still a gap between China's technological levels and those of the developed Western countries. However, not all of the equipment of these countries is advanced. Some of it is modern, while some is medium-grade or rather backward. Moreover, in order to protect their own advantageous competitive position, foreign businessmen often are unwilling to export relatively advanced equipment. Therefore, it is easy to import outdated old equipment if one is not careful. For example, the marble mining equipment imported by that factory was old equipment from the 1960's, both unsuitable and unusable. At present the equipment stands idle. It has become a pile of "scrap iron."

In addition, we also must note how appropriate imported equipment is to conditions in China. We must consider whether the equipment can be used to develop China's advantage in terms of energy resources, natural conditions, and labor force. We also must consider whether finished products sell briskly at home and whether they can become import substitution products.

Value of First-Quarter Exports to Various Countries

HK0905112991 Beijing CEI Database in English
9 May 91

[Text] Beijing (CEI)—Following is a list showing the value of China's export to various countries and regions in the first quarter of 1991, released by the General Administration of Customs:

	1-3, 1991	1-3, 1990
	(unit: 10,000 U.S. dollars)	
Countries, Regions	Export	Export
Hong Kong/Macao	583,062	449,486
Hong Kong	574,138	440,597
Macao	8,924	8,889
Taiwan	10,340	3,809
Japan	207,661	164,816
ASEAN nations	84,808	62,225
Indonesia	9,685	7,920
Malaysia	10,779	6,676
The Philippines	3,680	3,379

	1-3, 1991	1-3, 1990
	(unit: 10,000 U.S. dollars)	
Countries, Regions	Export	Export
Singapore	41,927	32,703
Thailand	18,549	11,467
Brunei	188	79
Bahrain	105	145
Bangladesh	3,251	2,986
Burma	12,050	3,939
Korea	10,978	6,753
India	4,093	3,074
Iran	3,286	5,096
Iraq	0	919
Kuwait	0	2,072
Nepal	685	1,426
Oman	125	106
Pakistan	9,537	6,810
Qatar	79	111
Saudi Arabia	4,383	7,030
South Korea	36,627	13,061
Sri Lanka	1,642	1,855
Turkey	928	1,070
The United Arab Emirates	2,804	4,758
EEC	152,058	106,785
Belgium	8,489	6,833
Denmark	2,828	2,453
Britain	14,848	11,649
FRG	51,962	33,307
France	14,446	12,069
Ireland	345	325
Italy	20,491	19,222
Luxembourg	9	3
The Netherlands	26,017	15,585
Greece	6,814	947
Portugal	816	837
Spain	4,992	3,555
Algeria	405	193
Egypt	1,165	1,451
Libya	409	737
Zaire	30	33,855
Albania	155	280
Bulgaria	444	1,127
Czech and Slovak	1,425	6,617
Hungary	398	823
Poland	1,150	3,803
Romania	1,113	7,005
Austria	1,279	553
Finland	1,513	1,096
Norway	1,111	742
Sweden	2,834	2,475

	1-3, 1991	1-3, 1990
	(unit: 10,000 U.S. dollars)	
Countries, Regions	Export	Export
Switzerland	4,136	3,985
Soviet Union	31,357	25,587
Yugoslavia	1,174	578
Argentina	542	157
Brazil	511	700
Chile	1,352	720
Cuba	3,527	4,218
Mexico	1,219	2,177
Peru	379	1,106
Canada	10,360	8,090
U.S.	102,812	87,472
Australia	14,482	7,921
New Zealand	1,187	824

Shanghai April Export Volume Increases

OW1105074591 Beijing XINHUA in English
0529 GMT 11 May 91

[Text] Shanghai, May 11 (XINHUA)—Shanghai's April export volume rose to 1.85 billion U.S. dollars, up 15.7 percent over the same month in 1990.

A trade official recently listed three major characteristics of the city's export activities this year:

One being that foreign funded companies contributed more by exporting goods valued at over 110 million U.S. dollars, a figure more than double the amount of the 1990 corresponding period.

Secondly, the rise of industrial production provided ideal conditions. Local industries offered more products for exportation during the month, according to the official.

However, the city's exporters signed 5.5 percent fewer contracts with overseas companies in April which might affect export performance in the last half of this year.

Xinjiang Uygur Autonomous Region Exports First Automobiles

OW1205152691 Beijing XINHUA in English
1321 GMT 12 May 91

[Text] Urumqi, May 12 (XINHUA)—In the near future, northwestern China's Xinjiang Uygur Autonomous Region will for the first time in history export 15 automobiles to the Soviet Union.

The first shipment of 15 Sy-132 passenger-cargo trucks, which were built by the Xinjiang Automobiles Refitting Plant, passed a quality inspection by the Soviet experts last month, and will soon be shipped across the border.

The contract, which was signed last August, stipulates that a second shipment of 15 trucks will be delivered to the Soviet Union at a later date.

In addition, a foreign trade company in the region signed a contract earlier this year to sell an additional 12 trucks of the same model to the Soviet Union.

More Joint Ventures Set Up in Beijing Suburbs

OW1705014991 Beijing XINHUA in English
0107 GMT 17 May 91

[Text] Beijing, May 17 (XINHUA)—A total of 131 foreign funded firms had been approved to be set up in the suburbs of Beijing, the Chinese capital, during the first four months this year.

The BEIJING DAILY reported today that the number 88 more than that for the corresponding period of 1990.

Among the 131 companies, 126 are Sino-foreign joint ventures, and five are solely foreign funded. The contracted investment reached 122 million U.S. dollars with more than 59.6 million U.S. dollars from overseas investors, which was 4.8 times and 4.6 times, respectively, more than the figures for the first four months of 1990.

The paper said local authorities have paid greater attention to the introduction of foreign funds to boost the local economy.

It reported that the majority of the new investments were made in industrial production such as garments, hardware, electric machinery and electronics.

Shanghai Opens Fifth Customs Office

OW1905182991 Beijing XINHUA in English
1047 GMT 19 May 91

[Text] Shanghai, May 19 (XINHUA)—Shanghai opened the Baoshan Customs Office Saturday, the city's fifth customs office approved by the State Council and General Administration of Customs.

The new customs office is located at the Baoshan loading and unloading terminal in northeastern Shanghai.

From 1979 to 1990, the volume of imports and exports passing through Shanghai customs offices increased from 15.83 billion yuan worth to 83.65 billion yuan worth a year, while the number of passengers who entered and departed Shanghai increased from 200,000 to 1.27 million a year.

Shanghai is preparing to open three additional customs offices, one each in the Pudong New Area, Xinzhuang of Shanghai County, and Fengxian County.

Xinjiang Province To Expand Opening to Outside World

OW2005154891 Beijing XINHUA in English
1407 GMT 20 May 91

[Text] Beijing, May 20 (XINHUA)—Xinjiang Uygur Autonomous Region will further its opening to the outside world and promote its foreign trade, according to the Beijing-based FINANCIAL NEWS.

During the Eighth Five-Year Plan period (1991-1995), the export volume of the region will increase by 10.6 percent annually, four percent higher than its gross domestic product increase for the same period, the paper said.

By the end of this century, its export volume will amount to 15 percent of the gross domestic product, the paper said.

To realize the goal, the region will continue to pursue its "overall-opening policy," formulate a series of favorable policies, and set up and perfect a new foreign trade structure.

While consolidating the development of its foreign trade with Japan, the United States, Southeast Asian and European countries as well as Hong Kong and Macao, Xinjiang will make efforts to expand its Soviet and West Asian markets.

In 1995, its export to the Soviet Union will account for 12.8 percent of its total export.

The region will open two or three more foreign trade outlets while enhancing the function of its existing five outlets, the paper said.

The region will also improve the quality and increase the varieties of commodities for export so as to expand its export capacity.

Xinjiang will continue to develop its export of labor services to and undertake contracted projects in the Soviet Union, with the rate increasing by 20 percent per year.

It will set three development "belts" with three "centers" in the overall opening up of the region: The northern Xinjiang comprehensive economic development belt centered in Kashi City, the central oil and petrochemical industrial development belt centered in Yining City, and the gold and nonferrous metals industrial development belt centered in Hami City.

AGRICULTURE

Problems, Solution To Agricultural Price Supports

91CE0512A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 3, 11 Mar 91
pp 26-29

[By Lu Shengliang (4151 5110 0081) of the Finance and Economics Institute of the Chinese Academy of Social

Sciences: "The Situation With Respect to Price Supports for China's Agricultural Products and How It Should Be Handled"]

[Excerpts]

In the present economic situation, China has a great many forms of price supports for its agricultural products. However, no matter if there is a direct recipient or not, the ultimate beneficiary of price supports is not the peasant. It is the city dweller. On the basis of the different ultimate beneficiaries, China's price supports for agricultural products can be divided into subsidies for city dwellers and subsidies for peasants. Price supports for agricultural products provided to the city dweller are related to his low wages. In other words, they supplement his low wages. By the same token, price supports for agricultural products provided to peasants are related to the low prices of agricultural products. In other words, they supplement these excessively low prices. Are not low wages and low prices for agricultural products two major policy characteristics of China's traditional economic growth strategy? Thus, in a sense, agricultural price supports constitute a loophole impeding traditional economic growth strategy. In other words, traditional economic growth strategy is the existing basis for China's price supports for agricultural products.

The current situation with respect to price supports for China's agricultural products can be simply summarized as excessive in amount, irrational in structure, and inappropriate in method.

1. Excessive amounts.

Since reform, agricultural price supports have increased rapidly and the state financial administration's proportion of expenditures and revenues has constantly expanded.

According to statistics, (See 1989 Statistical Yearbook for China.), agricultural price supports have gone from 9.35 billion yuan in 1978 to 56.03 billion yuan in 1989, an almost five-fold increase. The proportion of fiscal revenue accounted for by agricultural price supports climbed from 8.4 percent in 1978 to 21.6 percent in 1989. This figure rose to a high of 30.9 percent in 1981. The proportion of fiscal expenditures accounted for by agricultural price supports climbed from 8.4 percent in 1978 to 18.6 percent in 1989. This figure rose to a high of 28.2 percent in 1981. Agricultural price supports which account for financial administration revenue and expenditures of this size are obviously too large. Since reform, China has had financial deficits every year. The overextension of agricultural price supports, it should be said, is one major reason.

A fundamental reason for the present overextension of agricultural price supports lies in the fact that China still has not changed its original strategy of giving precedence to developing heavy industry nor the policies associated with this strategy. However, there are mainly three

factors that account for the direct cause of the large extent of agricultural price supports.

First, we have greatly increased the purchasing price of agricultural products since the advent of reform. However, we have not appropriately raised their sales price to a comparable extent, and the extent to which purchasing and selling prices have been reversed has constantly intensified. Compared to 1978, the purchasing price of agricultural products in 1989 increased 181.2 percent. The purchasing price of grain increased 248.2 percent, cotton 102.4 percent, and edible oil 145.2 percent.

When the purchasing prices of agricultural products were greatly increased, certain retail prices were not changed to avoid affecting the living standards of city dwellers. The state, for example, rationed grain and edible oil for city dwellers. Although certain retail prices were increased, the amount of increase was far smaller than they were for purchasing prices, such as the increases for eggs, pork, and vegetables. Since reform, the sales price of agricultural products has gone from being higher than purchasing prices to just the reverse. Subsequently, the gap between the two has gradually widened. This has been a major cause of the overextension of agricultural price supports.

Second, since reform, agricultural production has seen rapid growth and the volume of agricultural products purchased has sharply increased. Compared with 1978, the volume of agricultural products purchased in 1989 increased 115.8 percent. The volume of grain purchased increased 139.3 percent, cotton 57.7 percent, and edible oil 244.5 percent. From 1979 to 1989, the volume of agricultural products purchased increased at an average annual rate of 67.7 percent compared to 1978. The volume of grain purchased increased at an annual rate of 92.2 percent, cotton 73.7 percent, and edible oil 193.1 percent. Owing to the price reversal between the purchases and sales of agricultural products, the increase in purchasing volume means an increase in the size of the reversal between purchases and sales. Consequently, the increase in purchasing volume is also a cause of the present overextension of price supports for agricultural products.

Third, there are too many categories of subsidies for agricultural products, and their scope is too broad. This is also a cause of the present overextension of price supports. Prior to reform, we only had price supports for a small number of agricultural products which were related to national welfare and people's livelihood. Since reform, the number of products subject to price supports have been increasing more and more. At present, there are more than 30 types. Included are important products related to national welfare and people's livelihood such as grain, cotton, and edible vegetable oil as well as ordinary products such as tea, bamboo, aquatic products, and fruit.

2. Irrational Structure

China's price supports for agricultural products are mainly subsidies to city dwellers, whereas the price supports for agricultural products for the peasants are too small. The structure of price supports has been constantly deteriorating. The proportion of price supports benefitting the peasants has been getting increasingly smaller. It dropped from 28.2 percent in 1978 to 3.9 percent in 1987. The proportion of price supports benefitting city dwellers has been getting increasingly larger. It climbed from 71.8 percent in 1978 to 96.1 percent in 1987. The present structure of price supports cannot stimulate agricultural production. On the contrary, it encourages consumption of agricultural products, forming a long-term, vicious cycle of subsidized agricultural products not meeting demand.

3. Inappropriate Methods

We can divide the price supports for agricultural products that benefit the city dwellers into two categories: subsidies in kind and cash subsidies. Subsidies in kind are a form of price reversal between purchasing and selling passed by the government to subsidize city dwellers. They are often referred to as hidden subsidies. Because this type of subsidy is included in material goods, city dwellers only have to consume the material goods to benefit from the subsidy. This is why we call it a subsidy in kind. Cash subsidies are direct government increases in the income of city dwellers in which cash is used. This is why we often refer to them as open subsidies. At the stage prior to reform, we only had subsidies in kind, and it has only been in recent years that we have had cash subsidies.

In comparison with cash subsidies, subsidies in kind have the following drawbacks:

First, subsidies in kind easily conceal operational losses of agricultural products enterprises and are detrimental to the promotion of improved operation and management of these enterprises. Although, theoretically, we can easily differentiate policy related and operational-related losses and can only subsidize policy related losses on the basis of policy provisions, in reality, policy-related and operational-related losses are quite difficult to separate. As a result, agricultural products enterprises do not have the urge to forge ahead, they do not work to improve operations and management, and they are dependent on the state for its large pot of subsidies.

Second, subsidies in kind encourage city dwellers to consume subsidized agricultural products, thereby exacerbating the short supply of these products, which is detrimental to the readjustment of industrial structure. Because benefitting from a subsidy in kind is contingent on the consumption of material goods, city dwellers, if they are to receive the subsidy, have to consume a subsidized agricultural product. This encouragement of city dwellers to consume is constantly exacerbating the short supply of subsidized agricultural products and is detrimental to the readjustment of industrial structure.

Third, subsidies in kind do not encourage production growth. They only benefit the consumer. Agricultural producers not only do not benefit, they are to a certain extent harmed. If the scope of subsidies were limited, the state would be greatly restricted in raising the purchasing prices of agricultural products.

Fourth, subsidies in kind are hidden to the consumer. He is not aware of receiving a benefit.

The state provides city dwellers with several tens of million yuan each year in subsidies in kind, but they are not aware of receiving a benefit. Since it is not like a cash subsidy that directly increases their incomes, they remain dissatisfied.

Fifth, by comparison, more funds are spent on subsidies in kind than on cash subsidies to achieve the same level of satisfaction among city dwellers. Thus, the benefit of subsidies in kind is less. [passage omitted]

1. We should take the following measures to deal with the excessive amount of agricultural price supports:

First, we have to take various measures to control the rise in production costs for agricultural products and moderate the pressure to raise the purchasing prices of agricultural products. We know that an immediate cause of the increases in purchasing prices is the increase in agricultural price supports. Therefore, if we can control rises in production costs and eliminate pressure to raise purchasing prices, thereby maintaining the stability of the purchasing prices of agricultural products for a specific period of time, then we can control the size of price supports for agricultural products.

If we are to control rises in production costs of agricultural products, we must first actively encourage enterprises manufacturing capital goods used in agriculture to improve their production technology, improve their operations and management, cut back on production costs, and raise labor productivity, thereby lowering the selling prices of capital goods used in agriculture. At the same time, the state should provide these enterprises with preferential treatment with respect to reducing and remitting taxes. Next, we must do everything we can to develop agricultural science and farming techniques and see to it that results of current science and technology are widely applied. This should save on investments, increase output, and raise labor productivity, thereby lowering the costs of agricultural capital goods. Finally, we must take effective measures to prevent arbitrary apportioning and indiscriminate collection of fees among the peasants, thereby alleviating their burden.

Second, we should narrow the scope of subsidized agricultural products by eliminating certain agricultural price supports which do not greatly affect the lives of city dwellers. Having too large of a scope is a major cause of the excessive amount of agricultural price supports. We must gradually narrow the scope of subsidies by eliminating certain agricultural price supports which do not greatly affect the lives of city dwellers. For example,

cotton wadding for civilian use can be used for a long time. Its consumption by city dwellers is extremely limited. Frequently, several years go by before they buy new cotton wadding for their beds. Furthermore, as people's living standards improve, such things as eider-down quilts are gradually replacing cotton wadding in the homes of city dwellers. Consequently, eliminating the subsidy for cotton wadding for civilian use is not likely to strongly affect the lives of city dwellers. Another example is goods made from pig skins. Owing to the price of pig skin goods having already been freed up, subsidies for them are not likely to benefit city dwellers. Eliminating such subsidies is naturally not going to affect living standards. A further example is aquatic products and fruit. They are not daily necessities for city dwellers. Eliminating the price supports for them is not going to greatly affect the lives of city dwellers.

Third, we must take measures to reduce price supports for grain. Grain is the most important product with respect to national welfare and people's livelihood. Price supports for grain are also the most important component of agricultural price supports. Therefore, the criteria for grain price supports are followed with interest. To a very large extent, price supports for grain decide the entire situation with respect to agricultural price supports. In other words, the key to reducing the size of agricultural price supports is reducing price supports for grain. We think the following measures should be taken to reduce price supports for grain:

First, we should gradually free up the price of grain used in industry and gradually eliminate grain being resold by the state back to the rural areas at parity prices. This would thus reduce the amount of grain supplied at parity prices.

Next, we should, after verification, appropriately lower grain rationing standards. With the increase in people's standard of living, the increased consumption of non-staple food, and the gradual reduction in people's grain consumption, large quantities of the rationed allowance of grain have become surplus. According to a 1988 survey by the Beijing Statistical Bureau of the family budgets of 1,000 households, each month residents buy 18.5 jin of grain per person directly from grain shops. When the grain coupons used earlier are added in, actual consumption is about 24 jin. The average per person monthly ration allowance is 31.84 jin. When branch-of-work grain is deducted, the average is 29.5 jin, a surplus of about one-sixth. If the ration allowance per person were reduced two to three jin each month, the country's 300 million nonagricultural population could save from 600 to 900 million jin of grain each month and in one year from 7.2 to 10.8 billion jin. This could greatly reduce the price supports for grain. Even though food grain is a socially sensitive commodity and a rationing system that has not changed for a long period of time has created an abnormal mind set, as long as we beef up our propaganda in this regard, people will understand and be supportive.

Furthermore, we must establish a specific compensation fund for grain. Tax departments should make monthly collections from enterprises and individual industrial and commercial units which would be turned over to the state financial administration. The compensation fund tax for grain, which was entered as an expenditure before would be calculated as a cost. With respect to institutions, the state financial administration would be responsible for the compensation fund for grain. The compensation fund for grain would be used to make up for the price reversal in the purchasing and selling of grain.

With respect to the illogical structure of agricultural price supports, we must gradually increase price supports for the peasants and gradually reduce them for city dwellers. For this purpose, we should take the following measures:

We must continue to adopt preferential policies on the supply to peasants of capital goods for agricultural use; go all out to develop agricultural science and farming techniques and step up the wide dissemination and application of the results of current science and technology; increase investment in agriculture and step up the construction of agricultural infrastructure; gradually reduce the amount of agricultural products under contractual fixed quota purchasing; and through wage reform, gradually reduce price supports for city residents.

As regards the inappropriate methods used for agricultural price supports, we think at present this can be resolved by gradually switching from subsidies in kind to cash subsidies and also by gradually reforming the wage system.

Finally, even though agricultural price supports are part of China's traditional economic development strategy as well as in line with policies of wages and of prices of agricultural products being at an appropriately low level, we still must thoroughly resolve the price support issue and truly change our strategy of giving priority to heavy industrial development and implement a strategy of comparative dominance, with the focus completely on economic efficiency. Through a comprehensive reform of the economic system, including the pricing system, the wage system, and the financial system, we must eliminate the vicious cycle of low wages, low prices, and high subsidies. Only by deepening economic reform, can we truly and completely resolve the predicament now facing price supports for agricultural products.

Study on Capital Flow From Agriculture to Industry

91CE0503A Beijing *NONGYE JINGJI WENTI*
[PROBLEMS OF AGRICULTURAL ECONOMY]
in Chinese No 3, 23 Mar 91 pp 47-51

[Article by Zhu Xinwu (2612 2450 2976): "Feasibility Study on Agriculture Generating Accumulation for

Industry in the Near Term." The author is affiliated with the State Statistics Bureau's Agricultural Regulation Team.]

[Excerpt] [passage omitted]

How Much Accumulation Will Agriculture Be Able To Generate for Industry During the Eighth Five-Year Period?

Based on the accumulations generated by the agricultural sector for industry over the last 40 years, if we want to find out what agriculture can provide industry in the near term, we must first consider the needs of agriculture's own development. This includes funds for replenishing goods and materials used up in the production process, living expenses the producers need to sustain reproduction, accumulated funds needed to satisfy agriculture's own expanded reproduction, and funds needed to improve the peasants' standard of living. Only after we have determined what is needed to satisfy agriculture's own development can we determine the amount of accumulation available for industry based on agriculture's actual output value.

To make our statistical inference and data analysis as realistic as possible, we used the materials on hand to forecast several important economic indicators that can help us estimate the amount of agricultural accumulation during the Eighth Five-Year Plan period. According to our projection, fixed asset investments in the nation's capital construction in 1990 and 1991 will increase 5.5 percent and 11.2 percent, respectively, over the 1988 level and seven percent and 12.8 percent, respectively, over the 1989 level. It is unlikely that there will be significant increase in key factors of production in basic industry in the next few years, and so long as the price structure is not straightened out, extra-budget funds will naturally flow toward industries that are more efficient, and the problem with the structural imbalance can only be solved gradually. For these reasons, we project that the average rate of industrial growth during the Eighth Five-Year Plan period will be 7.6 percent a year. As for agriculture, we need to consider that the growth rate has been between 3.1 percent and 5.8 percent in recent years. Agriculture's internal conditions and external environment will improve as various agricultural development measures are implemented during the Eighth Five-Year Plan. But due to the macro-environment, it will be impossible to achieve a really high rate of growth. Therefore, from the point of the overall equilibrium of the national economy, and considering agriculture's own development possibilities, we anticipate that agriculture will grow at an average rate of 3.5 percent a year during the Eighth Five-Year Plan period. The number of industrial workers will increase an average of 3.2 million a year, and agricultural workers will increase an average of 7 million a year. The ratio between agricultural material consumption and the GVAO will be 1:2.97; the ratio between the peasants' living expenses and taxes and other expenditures and their production expenses will be 1.75:1, and agricultural production-type accumulation

?will be collected at a rate of four percent of the GVAO. The peasants' financial burden due to higher living standard and taxation and so on will increase at a rate of three percent of each year's total income.

Based on the above forecast, we have come up with three possibilities regarding the trend of industrial and agricultural product prices during the Eighth Five-Year Plan

period, and we have also made some concrete projections with regard to the amount of accumulation agriculture may generate for industry under different price situations:

The first possibility: If agricultural and industrial product prices remain at the current level, accumulations provided by agriculture for industry over a five-year period will be as follows:

Item	1991	1992	1993	1994	1995	5-year average
Accumulated funds generated by agriculture for industry in two different forms (100 million yuan)	1303.4	1465.2	1634.9	1699.8	1877.4	1596.1
Gap between agricultural product prices and their value (%)	24.3	25.8	27.2	27.2	28.5	26.7

According to this scheme, through taxation and exchange of unequal value, agriculture should be able to provide industry with 159.6 billion yuan in accumulated funds each year. After deducting the state's aid-agriculture expenditure, it should still generate a net of more than 130 billion yuan. Meanwhile, agricultural products will increasingly be priced below their real value as the years go by, and the price scissors between industrial and agricultural products will widen. Agricultural production will not get the necessary material compensation, and peasants will not see any improvement in their living conditions.

The second possibility: Both industrial and agricultural product prices increase but at different rates. To sustain a certain rate of industrial growth, industrial product prices must continue to rise at a rate of 6.85 percent a year. To make sure that the gap between agricultural product prices and their real value do not continue to widen, agricultural product prices must increase 14.6 percent a year. In this situation, accumulations provided by agriculture for industry over the five year period will be as follows:

Item	1991	1992	1993	1994	1995	Five year average
Accumulated funds generated by agriculture for industry in two different forms (100 million yuan)	725.5	742.2	746.5	570.0	564.9	669.7
Gap between agricultural product prices and their real value (%)	12.2	10.7	9.2	6.3	5.4	8.3
Agricultural product price index (previous year's price = 100)	23.1	13.7	13.7	10.6	12.4	14.6
Composite industrial and agricultural parity price index (retail price of rural industrial products = 100)	115.2	106.4	106.4	103.5	105.2	107.3

This scheme takes into consideration agriculture's own development and the basic needs for improving the peasants' living standard. Accordingly, through taxation and exchange of unequal value, agriculture will provide the state 67 billion yuan in accumulated funds, and after deducting the state's aid-agriculture expenditure, it will generate a net accumulation of 42 billion yuan for industry. If we implement this tentative scheme, there will be some improvement in the exchange of unequal value between industrial and agricultural products each year, and the gap between agricultural product price and value will also narrow, reducing the difference by 6.8 percentage points in five years' time. Besides providing

industry with accumulated funds, its own accumulation plus the state's aid-agriculture funds will enable the agricultural sector to basically guarantee the 3.5 percent increase in funds it needs each year to sustain its own growth, and the peasants will also see corresponding improvement in their living standard.

The third possibility: Freeze industrial product prices and narrow the gap between the price and the value of agricultural products by raising the price of agricultural products by 6.3 percent a year. In this situation, accumulations generated by agriculture for industry will be as follows:

Item	1991	1992	1993	1994	1995	Five year average
Accumulated funds generated by agriculture for industry in two different forms (100 million yuan)	763.0	780.8	796.4	684.9	694.3	723.8
Gap between agricultural product price and value (%)	13.8	13.0	12.1	10.0	9.4	11.2
Agricultural product price index (previous year's price = 100)	113.9	105.4	104.6	103.1	104.8	106.3
Composite industrial and agricultural parity price index (retail price of rural industrial goods = 100)	113.9	105.4	104.6	103.1	104.8	106.3

This scheme also gives consideration to agriculture's own development and the basic needs for improving the peasants' living conditions. Accordingly, through taxation and exchange of unequal value, agriculture will provide industry with 72.4 billion yuan in accumulated funds, and after deducting the state's possible aid-agriculture funds, it will generate a net accumulation of 47 billion yuan. Meanwhile, there will be some improvement in the unequal exchange between industrial and agricultural products each year, and the gap between agricultural price and value will also narrow each year, reducing the gap by 4.4 percentage points over a five year period. Besides providing industry with accumulation, agriculture will also achieve a growth rate of 3.5 percent, and the peasants' living standard will see corresponding improvement.

Analyzing the above three plans, in the first scheme to provide industry with accumulation, agriculture will be heavily burdened and will be unable to further develop. It is neither a good scheme, nor is it realistic. What is special about the second scheme is that it takes into consideration the reality that the price of rural industrial products will continue to rise, and it makes a fairly drastic readjustment of the price parity between industrial and agricultural products. It makes sure that funds are available to satisfy agriculture's own development and for improving the peasants' living standard, and therefore the amount of accumulated funds agriculture generates for industry is comparatively less than under the first scheme. However, a substantial increase in industrial and agricultural product prices will necessarily increase the state's financial burden. There can be serious side effects, and a certain amount of social risk is inevitable. What is special about the third scheme is that it is able to satisfy the needs of agriculture's own development and the basic needs for improving the peasant's living standard, and at the same time, agriculture is able to generate more funds to aid and support the industrial sector. Meanwhile, because the increase in agricultural product price is nominal, it will not increase the state's financial burden and will produce relatively little social risk. However, it requires that industrial product prices be frozen, which makes it a rather difficult scheme to carry out.

By analyzing and comparing the three possible schemes, it is our opinion that during the Eighth Five-Year Plan period, if agriculture is to generate accumulated funds

for industry, the ideal situation would be to limit the increase in the price of industrial products as much as possible while raising the purchase price of agricultural products by a reasonable amount, so as to keep the composite industrial and agricultural product parity price index at around 107, that is, keep the agricultural product purchase price index around seven percentage points higher than the retail price index of rural industrial products. Only in this way can we guarantee the funds to satisfy agriculture's own development and meet the basic needs for improving the peasant's living standard and at the same time generate a net of 45 billion yuan in accumulated funds for the industrial sector each year. All in all, it seems the third scheme is our best choice.

Adjust the Use of Agricultural Accumulation To Facilitate the Industrialization of the Rural Areas

In accordance with the state of industrial and agricultural development and starting out from the national economic development strategy, it is our opinion that we should gradually shift the use of agricultural accumulation to promote the rural area's own industrialization. The basic points of departure are:

First, rural economic development is lagging dangerously behind. Compared to the cities, China's villages are very backward. With respect to the means of production, rural workers own less than four percent of the original value of the production-oriented fixed assets owned by their urban counterparts. With respect to living expenses, the peasants' per capita living expense is less than one-half of that of the city dwellers. With respect to savings, the peasants account for nearly 80 percent of the nation's population but own only 30 percent of the savings. This distorted town-versus-country economic pattern has become an increasingly serious obstacle to the nation's economic development. If the backward conditions in the countryside remain unchanged for long, we will not be able to start up the major markets for industrial goods, and urban industrial development will be hampered.

Second, the development of township enterprises played a very important role in changing the rural economic situation. Since the Third Plenary Session of the 11th Party Central Committee, China's township enterprises have flourished. They started out with meager accumulation from agriculture, but it did not take long before they developed into the rural economy's mainstay industry. Besides promoting the rural economy's quantitative growth, they also brought about a rapid change in

the economic structure. Their greatest contribution lies in the fact that, without relying on the state's financial aid or support, they have absorbed and found work for more than 70 million agricultural workers and in turn have put the rural economy on a benign cycle. The development of township enterprises has become an important means for improving China's backward rural economy. The far-reaching effect of the township enterprises' development lies in the fact that between 1978 and 1989, enterprises at the township and village levels alone have provided the state with 121 billion yuan in tax revenues, which equal six percent of the state's total revenues for the period. Such contribution by township enterprises has been increasing each year, reaching 27.25 billion yuan by 1989 and accounting for as much as 9.3 percent of the state's total revenue for that year. It should also be pointed out that the financial revenue generated by township enterprises is a net contribution. Without the development of township enterprises, China's revenues will suffer to some extent. Some people view township enterprises as high-consumption and low-yield entities, but in fact, it is not so. If we take the total amount of funds (the sum total of the net value of the fixed assets and the average balance of current funds with norm at year-end) in 1989, for every 100 yuan in funds, township enterprises actually generated 6.7 percent more profit tax than the people-owned enterprises. This clearly demonstrates that the development of township enterprises has not lowered the overall standard of industrialization; on the contrary, it has in fact become a driving force behind the nation's economic development and has raised the country's overall standard of industrialization.

In summing up the above, whether from the strategic point of view or from a practical standpoint, it is very important that we use the accumulated funds generated by agriculture for industry to finance the industrialization of the rural areas. Since existing urban industries are basically capable of accumulating and funding their own development; since rural backward conditions have become a serious obstacle to the nation's economic development; and since the development of township enterprises has brought hope to solving many of the rural problems and has become a driving force behind the nation's economic development, we should indeed consider using these very limited funds on the industrialization of the rural areas.

Necessary Measures for Realizing Agricultural Accumulation

Looking at the distant future, the coordinated development of all sectors will require agriculture not only to provide industry with a certain amount of accumulation but also guarantee its own normal development and improve the peasant's living conditions. In other words, industry and agriculture must develop in harmony. In order to guarantee the coordinated development between industry and agriculture and make sure that

agriculture accumulates funds for industry, we must formulate and implement practical and workable measures:

1. We need to guarantee an average rate of growth of 3.5 percent a year in the agricultural sector. Sustaining 3.5 percent rate of growth during the Eighth Five-Year Plan period is something we can achieve if we work hard, but it is not a goal we can fulfill overnight. The key lies in making sure that various measures to accelerate agricultural development are put into effect, in firmly establishing the idea that agriculture is the foundation of our national economy, in continuing to perfect the basic rural policies, in resolving the serious problems of underdevelopment of agro-industry and low-quality, high-priced agricultural means of production, in guaranteeing the input of basic funds and goods and materials for agriculture, and in trying every way to arouse the peasants' enthusiasm for production. Only if agriculture can achieve its expected annual growth rate can the hope that agriculture will provide industry with a net of approximately 45 billion yuan a year become a reality.
2. We must implement quantitative control over industrial and agricultural price trends. Starting out from the principle of moderation, we ask that the composite parity price exchange index between industrial and agricultural products (with the retail price index of rural industrial goods equal 100; same below) be kept at around 107 throughout the Eighth Five-year Plan period. The goal is to limit the index to 115, 106, 106, 104, and 105, respectively, each year from 1991 to 1995.
3. We should gradually smooth out the relationship between production and sale of agricultural products and perfect the purchase and sale systems. Throughout the Eighth Five-Year Plan period, only if each unit of agricultural product generates less accumulation for industry than it does today can agriculture's own development and the basic needs for improving the peasant's living conditions be guaranteed. To achieve this, we must readjust the current agricultural product purchase and sale policy, give full play to the two-way effect of planned economy and market regulation, and set up a relatively flexible and effective agricultural product purchase and sale system. Currently, the state is heavily subsidizing the price of agricultural products through its purchase and marketing programs. If we keep up this kind of heavy subsidy over a long period of time, it will have a very adverse effect on the orderly development of the national economy. We must readjust the present agricultural product purchase and sale policy in a planned and systematic way. First, we should raise the sale price of grain by a reasonable amount. It is estimated that if the existing price of grain is doubled, the people's grain consumption expenditure will take up approximately 11.8 percent of their total income, 5.4 percent more than in 1989 and approximately at par with the 1984 level. Thus, raising the sale price of agricultural products is feasible. Second, we should reduce the sale of parity price grain. Surveys show that the nation's urban dwellers are entitled to 40.88 million

tons of grain ration, but actual consumption only amounts to 30.49 million tons. This means, under current conditions, parity grain sale can be reduced by one-quarter. This move alone can reduce government subsidies by 2.7 billion yuan. In the future, we should actively create the conditions to enable us to subsidize only the low-income people and change the current practice of across-the-board subsidy, so as to make the subsidies more meaningful. 4. We should make the integration of town and country our goal and encourage and guide the healthy development of rural industries, with township enterprises leading the way. Starting from the country's basic conditions, China's industrialization must go the way of giving due consideration to both town and country and integrating industry and agriculture. Thus we must set a rational pattern and make unified plans and actively support the development of rural industries. In the future, rural industries should emphasize structural readjustment, make technological transformations, and increase intensive reproduction. By making structural readjustments, they can improve quality, upgrade the products, and raise standards to enhance their export and foreign exchange earning capabilities. From the standpoint of the nation's overall economic development, we should bring the cities' funds and technologies to the rural industries in a timely fashion to raise the overall standard of rural industries.

QIUSHI on Rural Commodity Circulation

HK2906072191 Beijing QIUSHI in Chinese No 10,
16 May 91, pp 34-38

[Article by Hu Ping (5170 1627): "Strengthen Commercial Service Functions, Promote Development of Rural Commodity Economy"]

[Text]

I

To promote development of the commodity economy we have, in the course of restructuring the rural economy, carried out a series of reforms and readjustments in circulation. Principal among these are:

The replacement of the closed system of circulation, featuring a unitary channel and state monopoly, with a multi-channel system. While consolidating and developing state-run commerce and commerce in the form of supply and marketing cooperatives, positive efforts have also been made to develop collective, individual, and private commerce in the rural areas, restore and expand market fairs in town and the country, and support the direct entry of peasants into the circulation realm.

The readjustment and improvement of the commodity purchase and marketing policy. The varieties of farm products covered by the Ministry of Commerce plan have been slashed from 43 in 1978 to the current nine. Reform was carried out on the systems of unified purchase and purchase by assigned quotas for major farm products. The system of fixed purchase according to contract was instituted for major products like grain,

edible oil, and cotton, while a small number of commodities, such as pigs and lamb's wool, were placed under guidance plan management. The majority of products other than these were left to market regulation. Negotiated buying and selling, and free buying and selling through multiple channels, were gradually developed for those portions of major farm products not covered by fixed purchase according to contract. In 1987, the state further improved the grain purchase according to fixed quotas system by pegging the fixed purchase of grain according to contract system to the supply of chemical fertilizers and diesel at cheap prices and advance payments for future purchases. More recently, fixed grain purchase according to contract has been replaced by state purchase according to fixed quota to further arouse the enthusiasm of the peasants to grow grain. In an effort to stem speculation on important means of agricultural production by different quarters; resolve the problems of chaotic market and pricing conditions; and safeguard the interests of peasants, the state put chemical fertilizers, farm drugs, and plastic film for agricultural use under special control in 1988. These measures, which succeeded in knocking the market into better shape and allowed for flexible operations within a given scope, embodied the principle of combining the planned economy with market regulation.

The establishment and gradual improvement of the market system for farm products. Following the development of diverse channels of circulation and the readjustment of purchase and marketing policies, the circulation of farm products is no longer bound by the limitations of operations based on division of labor. Various types of trade centers, wholesale markets, and trading houses have developed rapidly in cities and agricultural product distributing centers and transaction volume at market fairs in town and country has seen rapid growth. In keeping with market growth, notable progress has also been made in reform of the pricing structure for farm products and the number of products subject to market regulation has been expanding annually. In the case of farm products the pricing of which is governed by state plans, necessary readjustments have also been made in accordance with the requirements of the law of value and in ways acceptable to the state and the consumers.

The reform of the management structure of supply and marketing cooperatives. In accordance with the principle of cooperative economy, and revolving round the overall objective of "changing whole-people ownership into collective ownership" and running comprehensive service centers for the rural economy, gradual steps have been taken to restore the mass nature in the organization of supply and marketing cooperatives since 1982. Also restored are democratic management and flexible operations and their ties with the peasants have been improved as a result. In the course of reform, supply and marketing cooperatives embraced the idea of "developing and prospering with agriculture," and created a good deal of new experience in promoting the stability and

perfection of the two-tier management system in rural areas. The establishment and development of socialized services for rural commodity production. As far as the supply of agricultural means of production is concerned, supply and marketing cooperatives in various localities have launched an extensive range of services, such as making deliveries to villages; retailing; testing the soil and spreading manure; scientifically prescribing farm drugs; and forecasting the insect pest situation. In the provision of services for crop cultivation, fish breeding, and poultry raising, different types of production and marketing service organizations, with supply and marketing cooperatives and state-run commercial undertakings as their centers, have mushroomed in many places. These provide serialized services, such as market information, technical guidance, material support, separation of storage and transportation, added value processing, personnel training, and promotion aimed at increasing purchases and sales. In many localities, supply and marketing cooperatives have also adopted aid-agriculture measures, such as fixing protective prices, setting up risk funds, and returning profits to peasants, in respect of backbone farm products. In the case of small town and township enterprises, the local supply and marketing cooperatives have gradually unfolded a range of services, such as providing market information, organizing the supply of raw and auxiliary materials, guiding readjustment of product mix, helping with the development of new products, and exploring new markets for products. Some have joined hands with township and small town enterprises in running commodity markets and specialized associations and in setting up joint-venture factories. Today, township and small town enterprises and supply and marketing cooperatives have become mutually-dependent twin economic pillars in some places. Together with agriculture, they have formed a benign cycle, with different units promoting one another and developing side by side. In addition, supply and marketing cooperatives have also established fairly comprehensive systems for the provision of services to peasants in production and in their livelihood. They have done a lot of useful work in the provision of serialized services aimed at promoting agriculture with scientific and technological means. Many provinces have initially established socialized agricultural service systems with science and technology as the guide and supply and marketing cooperatives as their centers.

In the 10 years and more since reform, we have witnessed the fastest growth of marketable farm products and the best rural market situation since the founding of the People's Republic. In 1990, the total volume of farm and sideline products purchased was three times more than in 1978. The state purchase of major farm products such as grain, cotton and oil registered substantial increases. All in all, the orientation of the reform of the rural commodity circulation system is correct and has played a positive role in the development of the rural areas and agriculture.

II

Since reform and the opening of the country to the outside world, notable headway has been made in rural commodity circulation. Compared with the requirements for the development of agricultural production, sluggish circulation remains a pronounced problem. Since the second half of 1989, overstocking and sluggish sales of farm products have gradually become aggravated. This has resulted in falling prices for some farm and sideline products and cuts in peasants' income. In some places, the living standards and actual production input have declined and this has led to the exacerbation of the sluggish rural market and adversely affected the benign cycle of the entire economy.

As the situation in recent years shows, there are many reasons for the contradictory phenomenon of the coexistence of overstocking and shortage of farm products. As seen from the realm of circulation, the main reasons are as follows:

In the course of opening the country to the outside world and invigorating the economy, necessary macroeconomic guidance, regulation, and control are lacking. Most of the commercial channels opened up since the commencement of reform are devoted to goods in great demand. When certain products fell short of demand, rival buyers would try to force up prices, even starting "trade battles" to seize the goods, thereby stimulating the blind development of these farm products. This was the cause of "selling difficulties" due to excessive supply. When supply exceeded demand, most channels switched to new items of farm products in great demand, leaving only state-run commercial undertakings and supply and marketing cooperatives to hold the fort. At the same time, signals concerning the imbalance of supply and demand were arbitrarily magnified, thereby further aggravating the selling difficulties. This resulted in chaotic circulation, distorted market signals, and abnormal price fluctuations, which fouled up the environment for production and operation by peasants. On the macroeconomic level, our failure to promptly establish an effective regulation and control system and management mechanisms which met the needs of multichannel circulation, and to coordinate the production, consumption, and internal and external trade of farm products, also increased the instability of the farm product market.

—Regional blockades have hindered the normal circulation of farm products. First, some producing areas monopolized farm products in great demand. They either made no effort to fulfill the state transfer and allocation plans or resorted to administrative intervention to restrict the transfer of farm products to other places. Second, some selling areas created trade barriers for farm products the supply of and demand for which were well balanced for the time being or which were temporarily overstocked. They tried to limit the transfer of products into their localities and even made no attempt to fulfill the relevant state plans. Third, the unjustified setting up of customs

barriers and the indiscriminate collection of levies and charges. These not only hindered the normal circulation of farm products but increased the cost of circulation, thereby forcing prices up. High prices in turn inhibited consumption and led to overstocking.

—While developing multichannel circulation, we have not paid full attention to the role of the principal channel. We only emphasized the need to develop multiple channels “at the same time.” Development was rather blind because the necessary rules and regulations were sadly lacking. State-run commercial undertakings and supply and marketing cooperatives were not given sufficient support. In particular, the organizational structure of state-run commercial undertakings was crushed in the course of reform and the means of regulation and control were weakened. As a result, the market coverage of state-run commercial undertakings and supply and marketing cooperatives quickly dwindled, their function in stabilizing the market steadily weakened, and their group advantage could not be brought into play. Besides, the actual tax burden in state-run cooperative commerce was much higher than that of other commercial channels. They were also the first to be assigned apportions. The fact that the ratio of purchase to sales was too low, capital at their disposal was too small, and the interest burden was too heavy also affected the actual strength of state-run cooperative commerce in the circulation of farm products and was responsible for the “buying and selling difficulties” to a certain extent.

—Government and enterprise functions were not clearly defined and the operating mechanisms in enterprises had not been brought into balance properly. Because the responsibilities of the government and enterprises were not clearly defined, enterprises all “ate from the same big pot” of the state and certain functions which should have been discharged by the state were sometimes shifted onto the state. For instance, state-run cooperative commercial undertakings were responsible for withholding taxes (in some localities, this even became paying taxes on behalf of others). These problems seriously affected the development of business activities by state-run cooperative commerce. The fact that the operating mechanisms in state-run cooperative commerce had seen little change also affected the circulation of farm products. —The lack of basic circulation facilities and investment has restricted the expansion of farm product circulation. A pronounced problem in the circulation of farm products is the shortage of storage capacity. Because the majority of the existing storage facilities were built in the 1950's and 1960's, the scrapping rate is rising as years go by. Although some new facilities have been built in recent years, they cannot keep up with the actual needs of production growth and circulation. This has adversely affected the purchase of farm products. As regards transport facilities for farm products, aging and shortage are two major problems and the situation is particularly serious in remote border

areas and mountainous areas. Since many farm products involve high storage and transport costs, enterprises handling these products are doing business with a small profit margin or even at a loss. They do not have the necessary resources to build circulation facilities. State investment in basic circulation facilities for farm products is also far from adequate, restricting the development of storage facilities. This is another important reason why selling farm products can be so difficult.

—The fact that the pricing structure has not been put into proper balance means that the production pattern of farm products is not in accord with the pattern of demand. Since reform, the prices of important farm products have been readjusted several times but the pricing structure still has not been put into proper balance. In addition to problems like the “double-track pricing” for important farm products and the retail price of farm products being lower than their state purchasing price, unreasonable price relations have also resulted in the blind growth of certain products and serious shortages of others. The resultant structural imbalance in the agricultural production pattern has ultimately led to the coexistence of overstocking and shortage.

Apart from “buying and selling difficulties,” another problem is that most border areas, mountainous areas, old liberated areas, minority areas, and poverty-stricken areas are still practicing the self-sufficient and semi-self-sufficient economy. They urgently need development to turn resources into commodities. Thus, further efforts to improve commodity circulation in the rural areas and to promote the development of agriculture and the commodity economy in these areas are important tasks which urgently demand our attention.

III

The six major measures for agricultural development proposed by the CPC Central Committee for the 10-Year Program and the Eighth Five-Year Plan all have something to do with circulation and emphasize the need to pay attention to the circulation of farm products as we do to agricultural production. In order to improve the circulation of farm products and develop the rural market, we must pay attention to the following tasks:

First, we must further improve macroeconomic regulation and control mechanisms in rural commodity circulation.

To begin with, we must strengthen planned guidance over the production and circulation of farm products. The production and circulation of major farm products with a vital bearing on the national economy and the people's livelihood must be incorporated into central and local plans and implemented at each level. While strengthening the peasants' sense of responsibility to the state, we must make full use of economic means to convince peasants that they must produce and sell to the

state in accordance with state plans. As for farm products not subject to state plans, local commercial departments should make positive efforts to provide peasants with market information. With regard to farm products which have a great impact on the local economy (such as fruits, fresh vegetables, and bulk local and special products), commercial departments in the major producing areas should incorporate their production into the intermediate and long-term plans of departments and enterprises. They should help peasants to actively develop and organize transportation and sales by making full use of their favorable natural conditions and in accordance with market needs. Meanwhile, they must participate in the regulation of the market on a timely basis, strike a balance between supply and demand, and stabilize prices in the light of market demand. Next, we must establish a reserve system for major commodities. Since the instability of agricultural production determines the instability of farm product circulation, we must establish the necessary reserve system to make up for possible shortages with surpluses and regulate supply and demand. This will ensure the smooth progress of agricultural reproduction. Agricultural means of production such as chemical fertilizers, farm drugs, and plastic film are produced all year round and supplied seasonally. They are subject to natural disasters and other factors and demand may vary substantially. It is thus necessary to keep reserves of these products. Thirdly, we must establish a system of risk funds for farm products in order to make up for losses of farm products due to market fluctuations, disasters, or accidents. This will also protect the interests of peasants and their enthusiasm in developing production. Fourth, on the basis of consciously making use of the law of value and the law of market supply and demand, we must scientifically determine the production cost and price relations of farm products, gradually form a reasonable and well-coordinated pricing structure with grain price as the center, and promote the rationalization of the agricultural structure. Fifth, we must make further use of the international market to serve the circulation of farm products in our country. Apart from continuing with our efforts to expand intergovernmental trade and increase exports, we should also strive to expand international commodity exchanges through border trade, barter trade, and other forms of trade.

Second, we must adhere to the reform orientation of appropriately developing privately-owned and individually-operated commercial enterprises, with state-owned commercial enterprises constituting the mainstay, put circulation in order, and develop a unified market system for farm products.

The circulation system featuring a unitary channel and state monopoly is not compatible with the swift development of the rural commodity economy. Likewise, "the whole nation engaged in commerce," scrambling between buyers, constant trade battles, and chaotic market conditions will adversely affect the healthy development of the rural commodity economy. Thus, we

should speed up the standardization of market transactions and establish normal procedures for rural commodity circulation. The development of multi-channel circulation in the rural areas should not jeopardize or shake the predominance of public-owned commerce in any way. This should be taken as a major policy indicator for upholding the socialist orientation in the realm of circulation and combining the planned economy with market regulation. Further efforts must be made to strengthen the overall planning, guidance, and management of rural commodity circulation. On the level of commercial structure, we must fully bring into play the role of state-owned commercial enterprises, and supply and marketing cooperatives, as major channels, and magnify the stabilizing factors in the development of farm products and rural markets. We must also continue to encourage and energetically support individual peasants in developing commercial outlets with merchants, and in setting up joint-household purchasing and marketing agencies, to enliven circulation and provide better services to their fellow peasants. On the level of market building, we must coordinate the stratification of the farm product market properly throughout the whole country. In this connection, we should concentrate on building a number of state-level wholesale markets for major farm products and, on this basis, gradually develop and perfect a socialized and multilevel market system for wholesaling farm products. Efforts must also be made to set up a futures market for farm products and create better conditions for multichannel circulation. On the level of circulation order, our main tasks are to improve market laws and regulations; strengthen management; normalize market behavior; prohibit market monopoly, regional blockades, illicit competition and all kinds of illegal transactions; and effectively put an end to the random erection of customs barriers, the indiscriminate collection of taxes and charges, the levying of unjustified financial levies, and the indiscriminate meting out of penalties in order to ensure smooth circulation, the legitimate rights of lawful operators, and to promote the development of a unified farm product markets.

Third, we must continue to deepen the reform of circulation channels in the rural areas and make further efforts to improve the capacity of supply and marketing cooperatives and state-owned commercial undertakings in serving rural commodity production.

The orientation for the reform of supply and marketing cooperatives remains the same. That is, they should be turned into cooperative commercial undertakings under the collective ownership of peasants and into comprehensive service centers for the rural areas. It must be clearly pointed out that supply and marketing cooperatives are cooperative economic organizations under the collective ownership of peasants and are important means through which the state regulates and controls the rural market. Efforts must be made to stop the erroneous practices of arbitrarily transferring manpower and material resources from supply and marketing cooperatives,

changing the relationships of administrative subordination, and restricting the operational scope of supply and marketing cooperatives. We must also safeguard the legitimate rights and interests, as well as the integrity, of the organizational system of supply and marketing cooperatives to fully bring their mass function into play in serving agriculture. In compliance with the demand always emphasized by the Central Committee and State Council on turning supply and marketing cooperatives into comprehensive service centers for the rural economy, supply and marketing cooperatives may deal in all products sold by peasants, as well as commodities and items needed in production and livelihood, and should have the right to provide services, thereby giving scope to their comprehensive function in serving the rural commodity economy. Supply and marketing cooperatives must be given the necessary economic support and funds for the state purchase of farm and sideline products should be effectively guaranteed. Preferential interest should be offered and tax exemption or remission for agricultural means of production should be continued. Measures must also be taken to gradually remove the economic burdens on supply and marketing cooperatives resulting from years of policy readjustments and to increase their service capabilities.

The circulation system of state-run commercial undertakings in the rural areas must also be further reformed. Seen from the situation in recent years, efforts to organize different forms of production, having supply and marketing complexes with large and medium state-run cooperative commercial enterprises as their centers; improve supporting services; establish farm product commodity bases; cause production and marketing to meet; pay attention to the interests of agriculture, industry, and commerce in both town and country, and so on, have produced satisfactory results. These efforts must be continued and developed. Where industrial consumer goods are concerned, we must strengthen the ties between state-run industrial and commercial undertakings and supply and marketing cooperatives, organize the supply of marketable manufactured goods to the rural areas through various means and, in the light of the production and livelihood needs of peasants, do a good job of "fixing the development orientation, fixing the pricing specifications, and fixing the places of production" and effectively improving the supply of manufactured goods to the rural areas with the help of industrial departments.

The Seventh Plenary Session of the 11th CPC Central Committee put forward the call to pay attention to the development of tertiary industries. The development of tertiary industries in the rural areas is a task which calls for concerted efforts. We must strengthen the organization, guidance, and management of collective, individually-operated, and privately-run commercial undertakings in the rural areas. State-run commercial undertakings and supply and marketing cooperatives should give the necessary support to other commercial sectors in the rural areas and, in the course of competition, should give full scope to one another's role through

the coordination of actions and mutually complement each other with their respective strong points. State-run cooperative commerce should also assist peasants in marketing their own products. This way, products produced by peasants can be smoothly brought into the circulation channels and realize their value.

Fourth, we must gradually reform the grain purchase and marketing system.

State purchase of grain according to fixed quota is an important guarantee of economic construction and social stability. It is also an obligation peasants must fulfill to the state. We must maintain stability but, at the same time, we must also gradually narrow the gap between the supply of and demand for cheap-priced grain through the planned reduction of sales. In the next few years, we must gradually raise the price of fixed state purchase to increase the enthusiasm of peasants for growing grain. The main tasks for the next two years are to narrow the gap between state receipts and payments in respect of grain; bridge the gap between the purchase and selling prices of grain; further promote grain production; and increase the volume of fixed state purchase through stable purchases, reduced sales, price readjustments, and contracted responsibilities. The problem confronting the principal grain-producing provinces where losses sustained increase with the volume of grain shipped out should be gradually averted. The state should also give these provinces preferential treatment in respect of agricultural input and investment in circulation facilities. In order to enhance the capability of the state in the macroeconomic regulation and control of grain circulation, we must see to it that the central and provincial authorities have the necessary grain reserve regulatory funds and market regulation grain. Intake and outflow, stabilizing prices, and regulating supply and demand should be handled in a planned way in light of market conditions while establishing a special grain reserve system. On the basis of the existing wholesale grain market, we must further develop a multilevel wholesale grain market system and step up the development of grain markets. In the case of commodity grain not covered by fixed state purchase and special reserves, we must cause the prices to fluctuate in line with market conditions and invigorate multichannel circulation and negotiated sales. Efforts must also be made to readjust the profit-sharing ratio for negotiated sales appropriately to increase the enthusiasm of grain enterprises in conducting these operations.

Fifth, we must strengthen and perfect socialized services for agricultural production.

We should concentrate our efforts on three aspects. First, supply and marketing cooperatives at all levels must, revolving round agricultural means of production under special control, launch serialized services with "the promotion of agriculture by scientific and technological means" as the central task and steadily raise the level of scientific and technological services. Second, we must devote major efforts to strengthening the construction of

basic circulation facilities. Governments at various levels should gradually increase investment in the construction of basic circulation facilities and give it the necessary guarantee as agricultural investment. Capital construction investment for the construction of state reserve warehouses and transshipment warehouses for agricultural means of production should come from special funds arranged by the state, or by the provincial or city governments concerned. In the construction of basic circulation facilities for farm products circulated through multiple channels, positive efforts must be made to absorb funds from society. A variety of fundraising methods should be adopted to give full scope to the strength of localities, enterprises, collectives, and individuals. We also hope that the local governments and departments concerned will take the necessary measures to enhance the self-expansion capability of rural commercial enterprises and that discounted loans be made available to supply and marketing cooperatives and village cooperative commercial organizations for the construction of basic circulation facilities. Meanwhile, efforts must also be made to tap the potential of circulation facilities. The facilities in various departments must be open to the public and the overall management of circulation facilities must be strengthened. Third, we must develop the processing of farm products. A successful job in this regard will have immense significance in opening up the farm product market and supporting the production of farm products. Full attention and the necessary support must be given to this work.

Sixth, commercial departments must continue to help the poverty-stricken areas in economic development.

In helping old liberated areas, minority areas, border areas, and poverty-stricken areas discard their backwardness and shake off poverty, the most fundamental way is to devote major efforts to developing the commodity economy in these areas. Commercial departments must, revolving round the central task of helping the masses secure enough food and clothing, gradually shake off poverty and become well off, and, proceeding from reform and development in the realm of circulation, support and guide the poverty-stricken areas in developing the commodity economy through self-reliance and building up their "blood-making mechanism." In recent years, local commercial departments have done a lot of useful work in assisting the poor in their development. This includes selecting production items that can be undertaken by most households, giving them assistance in production, smoothing the channels of circulation and organizing their commercialized production; selecting those trades which enjoy favorable conditions in terms of resources, developing "lead" products, and expanding the processing industry, thereby nurturing the development of crop cultivation, fish breeding, and poultry raising; and increasing the supply of agricultural means of production, offering technical training, developing service organizations, and improving the production service system. We should persevere in these endeavors and search for new ways

and means to promote the development of the commodity economy in the poverty-stricken areas.

Heilongjiang Rice, Oil Market Prices

91P30156C Harbin HEILONGJIANG JINGJIBAO
in Chinese 18 May 91 p 3

[Summary] On 5 May the Heilongjiang Economic Information Center surveyed markets throughout the province to view the market situation after the increase of rationed grain and oil prices. The average rice price increased from 1.04 yuan per kilogram before readjustment to 1.17 yuan per kilogram. The average price for soybean oil increased from 4.87 yuan per kilogram before readjustment to 4.97 yuan per kilogram.

Provincial Surveys on Grain Price Increases

91P30156E Beijing JINGJI CANKAO BAO in Chinese
17 May 91 p 1

[Summary] According to a survey of 283 people in urban areas of Heilongjiang Province, 51.6 percent approved of grain price increases, 25.1 percent were indifferent, and 23.2 percent disapproved. According to a survey of 112 teachers and students at a finance and economics institute in Hebei Province, 75 percent approved of grain price increases, 15 percent were indifferent, and 10 percent disapproved. The majority of those who approved were cadres and intellectuals, the majority of those who disapproved were from large families, families with material difficulties because of few workers, and workers from enterprises with depressed production.

Heilongjiang Grain Area, Agricultural Funds

91P30156D Harbin HEILONGJIANG RIBAO
in Chinese 27 May 91 p 1

[Summary] As of 16 May, the sown crop area in Heilongjiang Province was 72 million mu, accounting for 80 percent of the planned area. The wheat area is 26 million mu, the corn area may reach 31 million mu, the rice area 11 million mu, and soybean area 33 million mu.

At present, Heilongjiang has raised 3.62 billion yuan in funds for spring plowing, of this amount agricultural banks plan to invest 1.34 billion yuan, an increase of 100 million yuan over 1990. Local financial departments will spend 240 million yuan, an increase of 130 million yuan; and rural areas have raised 1.95 billion yuan themselves, an increase of 190 million yuan.

The area devoted to implementation of the "Bumper Harvest Plan" will increase from 33 million mu in 1990 to 40 million mu, accounting for one-third of the grain area.

In the first quarter of 1991, Heilongjiang invested over 310 million yuan in the livestock industry, a 38.3 percent increase over the same period in 1990.

Sugar Production

OW2206162291 Beijing XINHUA in English
1525 GMT 22 Jun 91

[Text] China's sugar output this year is expected to reach 6.5 million tons, ranking fifth in the world.

China now has 1.6 million ha of sugar cane fields and 540 sugar refineries.

Shandong To Accelerate Development of Silk Industry

OW0107043491 Beijing XINHUA in English
0234 GMT 1 Jul 91

[Text] Jinan, July 1 (XINHUA)—East China's Shandong Province will accelerate the development of its silk industry during the country's Eighth Five-Year Plan period (1991-1995).

Shi Jinchang, manager of the Shandong Silk Corporation, said at a ceremony to mark the 10th anniversary of the company that the building of the province's 20 silkworm cocoon production bases will speed up and the total annual output of silkworm cocoons will reach 25,000 tons by the end of the plan period.

According to the manager, the province will invest more than 50 million U.S. dollars importing advanced equipment for the industry.

Moreover, more than half of the province's 46 key silk projects will set about technical upgrading within this year, said the manager.

Meanwhile, 67 scientific and technological silk development projects will also be carried out one after another.

Last year Shandong's output of silkworm cocoons hit a record 12,000 tons, for an output value totalling 810 million yuan.

Perspectives on Wining, Dining Phenomenon

91CM0412A Shanghai SHEHUI [SOCIETY]
in Chinese No 74, 20 Mar 91 pp 45-48

[Article by Yan Qin (3601 4440): "Wining and Dining Persists Despite Repeated Prohibitions"]

[Excerpts] [passage omitted] Why hasn't the wining-and-dining trend been reversed despite repeated orders to stop it? There are many reasons for this. Some have to do with history, some with the current reality; some are direct reasons, others are indirect. This article proposes to examine the direct reasons, taking reality as the starting point.

To me, the wining-and-dining trend is a social, political, economic, and cultural phenomenon.

As a political phenomenon, the wining-and-dining trend is a microcosm of the "special privilege mentality" of the feudal bureaucracy and the pleasure-seeking world view of the bourgeoisie. In Chinese feudal society, you have, on the one hand, tens of millions of working people struggling at the poverty line, and, on the other, a nobility feasting on all manner of delicacies. The world-famous Chinese cuisine is founded on a plain diet characterized by widespread shortages. It was precisely this kind of diet that supported the wanton extravagance of the feudal rulers of China. [passage omitted] Moreover, we have been introducing reform and opening to the outside world in the last few years. In the process of admitting fresh air (eg., the advanced technology and management experience of developed nations), we have also let in mosquitoes and flies. [passage omitted]. The bourgeois style of social intercourse, characterized by wasteful and conspicuous consumption, their assorted costly and extravagant meetings, and their corrupt way of spending whatever it takes just to create an air of luxury, are a perfect match for the feudal special privilege mentality, adding a touch of the modern bourgeoisie to feudal privilege. [passage omitted]

As a political phenomenon, the wine-and-dine trend reflects a low-quality kind of interpersonal relations in political life. We in China have a graphic description of low-quality close relations: wine-and-meat friends. [Passage omitted] The concept of wine-and-meat friends has its own following in political life. Some people subscribe to the idea that if you wine and dine, you will make lots of friends or win lots of votes. They are parasites on the body of public ownership. They cultivate connections and gain access to people in power by wining and dining at public expense. With entertaining as the medium, they nurture a private network of connections at public expense. They put on a show to impress others at public expense. [passage omitted] Also, people who engage in these practices often come out ahead of others. They often are regarded as good at getting along and good at getting things done, whereas people who do not play the wine-and-dine game are considered incompetent. [passage omitted]

As an economic phenomenon, the wine-and-dine trend is an undesirable product of the imperfect public ownership system at the present stage. It has been only 30 years since China abolished private ownership and introduced public ownership. Its short history is precisely why our socialism is still in the initial stage. Public ownership is still imperfect in some ways, which provides the soil that enables the wine-and-dine trend to grow. Some government officials and workers wine and dine at public expense. The money comes from the state but the benefits accrue to them personally. Since it is the state which is really footing the bill, they can afford to be generous. The food is meticulously prepared, the cigarettes and alcohol are of a high quality, and the courses are plentiful. Spectacular feasts go on around the clock. At a time when public ownership is still deficient, wining and dining often pay off handsomely. For instance, these days when a unit at a lower level seeks development, both the project and funds must come from the higher authorities. When it is hit by disaster, it must also look toward the higher authorities for aid and relief. To a large extent, the financial position of a unit depends on how much attention it can receive from leaders at the higher level. The authorities above can grant a project or allocate a sum of money to this or that unit. In the end, the largess will go to the unit that is more resourceful. Accordingly, localities and grassroots units sometimes are only too happy to pay the small price of wining and dining in order to get something bigger in return—a government allocation or a slice of the plan. They know full well that it is wrong to indulge in lavish entertaining, but have no choice but to swallow hard and play the game. If you do not entertain, others will. In the end, it is you who will lose out. [Passage omitted]

As a social phenomenon, the wine-and-dine trend is an abnormal byproduct of a process in which a status society changes from a closed society to an open one. China is a typical status society where people know their place in the strict social hierarchy. Even today the basis of this status society has not been eradicated. In a status society, equality and self-determination are out of reach. People can only adapt themselves to society by wearing a mask and maintaining a superficial harmony. People in high places or senior positions tell themselves all the time that they must keep up appearances and not do anything beneath their dignity. Unwilling as they are, they act sanctimoniously. People in lower positions, on the other hand, are careful about what they say and how they act at all times and on all occasions. They pull their heads in and take pains not to overstep their authority. The result is man-made barrier after man-made barrier between people at the top and below. [Passage omitted] The wine-and-dine trend provides a narrow channel through which people in a status society can pursue equality and self-determination. Wining and dining often creates an atmosphere of equality that is usually unattainable otherwise, an atmosphere in which notions of superiority and inferiority are obliterated, even a mood of total spiritual liberation. Some people have summed up a feast as a trilogy. At the beginning, people

exchange social pleasantries and butter one another up. Next, having downed a few drinks, they pour forth a torrent of brave words, sparring with one another verbally, each claiming to be the best around. Finally those individuals with a more limited tolerance for alcohol become drunk and begin uttering nonsense. Crazy thoughts that one thinks when one day dreams now all come gushing out, as do confidential words long pent up inside. Equality, normally beyond reach, is now fully within grasp. As to whether what one says is appropriate and whether how one acts befits one's position, nobody cares at all. [Passage omitted]

As a cultural phenomenon, wining and dining is a negative aspect of Chinese culture. In recent years, some intellectuals have grown disgusted with the anomaly of wining and dining and with their helplessness in the face of it. They dismiss Chinese culture as an "eating-and-drinking culture" and "a culture of alcohol," quoting authoritative works copiously to expound their point. Clearly, this is a biased view. To give them their due, however, it is obvious what is wrong with Chinese

culture when it comes to wining and dining. For instance, the Chinese have long assessed a person's conduct, measured his ability, and expressed the full range of emotions with or through alcohol. [passage omitted] In daily life and in literary and artistic works, people are even more given to expressing happiness, anger, sadness, and joy through drinking. When there is a funeral or wedding in the family, people throw a banquet. When people are doing well or not so well, when they fall in love or are lovesick, alcohol is again used to express feelings. Alcohol is featured in celebrations or as something in which to drown one's sorrow. All this fully demonstrates the special place of eating and drinking in Chinese culture. Given this cultural background, how a person carries himself at a banquet is a measure of his tolerance, caliber, and style, in fact, the equivalent of these things at times. A person with a high tolerance for alcohol is almost always regarded as magnanimous, capable, classy, while one with less tolerance is certain to be thought of as small-minded and not meant for great things. [passage omitted]

CENTRAL SOUTH REGION

Political Bureau Member Inspects Hubei

HK2205064991 Wuhan Hubei People's Radio Network in Mandarin 1130 GMT 20 May 91

[Excerpts] While making an inspection tour of Hubei, Song Ping, member of the CPC Political Bureau Standing Committee, stressed that in the course of modernization construction and reform and opening to the outside world it is necessary to consistently promote Marxist ideological and theoretical work and to strengthen party building to enhance the combat effectiveness of all levels of party organizations.

From 11 to 19 May, Comrade Song Ping, accompanied by provincial party committee Secretary Guan Guangfu; Governor Guo Shyyan, who is also provincial party committee deputy secretary; and provincial party committee Deputy Secretary Qian Yunlu, went to Wuhan, Xianning, Huangshi, Huanggang, and Ezhou on an observation tour. He visited enterprises, villages, and shops to find out about the situation and had cordial conversations with cadres, workers, peasants, and shop assistants. At the same time he held discussions with other comrades on a wide range of subjects including economic work, socialist ideological education in rural areas, and ways to strengthen the party ideologically and theoretically.

Song Ping pointed out emphatically: vigorous efforts should be continually made to implement the spirit of the Seventh Plenary Session of the 13th CPC Central Committee, uphold the party's basic line, and effect an upswing in the national economy to increase China's overall strength. At the same time we should maintain sharp vigilance over and thwart the plot of domestic and foreign hostile forces to achieve peaceful evolution in China. The more the economy grows, the more powerful we are in combating peaceful evolution. Only when we resolutely oppose peaceful evolution, can economic construction proceed along a healthy socialist path. The two aspects promote each other. Marxism-Leninism-Mao Zedong Thought is our party's guiding ideology. Without revolutionary theories, there would be no revolutionary movements. Our party has consistently attached great importance to theoretical work. Under present circumstances, it is all the more important to strengthen the party theoretically. Past facts at home and abroad show that ideological confusion tends to lead to political mistakes, while ideological confusion stems from theoretical confusion. New conditions and problems keep emerging from reality including the theoretical and ideological confusion found several years ago. We will not straighten out ideological and theoretical chaos until we can offer theoretical explanations of and answers to the problems that have caused theoretical and ideological confusion after we have made thorough investigations of the society to obtain genuine and firsthand knowledge and have made analyses and studies using Marxist viewpoints and methods. It is necessary to help the broad

ranks of party members and cadres further arm their minds with Marxism-Leninism-Mao Zedong Thought and increase their faith in socialism so they will not go astray in the complicated work related to economic construction and reform. [passage omitted]

It is the party's basic tasks and the essential requirements of socialism to vigorously develop the rural economy and constantly expand the collective economic strength to gradually achieve common prosperity in rural areas. Cadres should go down to the countryside to conduct education in cherishing the state, collective, and socialism among peasants to raise their socialist consciousness. They should also help peasants explore new possibilities in production and develop the rural economy. It is necessary to organize the broad masses of the peasants to the greatest possible extent and give all a job so that they will really become masters of the country. With this done there will be no difficulties that cannot be overcome.

While stabilizing the system of contracted responsibilities on the household basis with remuneration linked to output, many localities in Hubei have set up a united rural economy society. This is conducive to developing the two-tier economy and has promoted socialized service in rural areas. It is a great creation to incorporate the responsibility system with the household contract linking output to payment as the main form into the rural collective economy and to set up a management system whereby unified management is combined with separate management. This practise has opened up a wide path for China's rural economy.

He stressed: The peasants' livelihood should be appropriately improved as the rural economy grows. Efforts should also be made to increase accumulation to expand reproduction and to enrich the peasants' cultural life.

We have only a poor foundation now and should refrain from unduly lifting the consumption level.

While in (Bazhu), (Guanqiao), Jiayu County, where the local party branch was chosen as one of the 10 red-banner most advanced rural party branches across the province, he encouraged the peasants to do a good job in building socialist spiritual civilization while building the material civilization.

While holding a discussion with responsible members of some enterprises, Song Ping praised the Wuhan Pharmaceutical Factory for their style: For basing themselves on their actual conditions, pressing ahead despite difficulties, stressing internal rather than external factors, tapping their own potential rather than hoping for improved objective conditions, and relying upon their own efforts rather than seeking outside help. He said: Placing stress on internal factors and our own efforts in no way means that external factors and objective conditions are not important or that external conditions need not be improved, but rather that we should proceed from actual conditions in enterprises, tap innate potential, make innovations, and improve management. Such a style is

all the more worth advocating at present when major and medium-sized enterprises are getting into difficulties. [passage omitted]

NORTHEAST REGION

Jilin Holds Conference on Collection of Fares, Fines

SK2350159 Changchun Jilin People's Radio Network in Mandarin 2100 GMT 22 May 91

[Summary from poor reception] Our province has achieved notable results in checking the arbitrary collection of fares, fines, and donations since last year. Collection of donations for 899 purposes and fines for 93 reasons has been abolished. Among the 69 departments directly under the province, which had practiced the collection of donations, 59 have eliminated the practice. Personnel who violated laws and discipline in the collection of fares, fines and donations were also dealt with.

"At the provincial conference on the work to check arbitrary collection of fares, fines, and donations, Provincial Vice Governor Wu Yixia spoke on the arrangements for the next step of this work. Wu Yixia emphasized: In line with the arrangements of the central authorities, and the provincial party committee and government, the general requirement on the next step of the work is that on the premise that the quality of the work is ensured, we should seize time, stress practical results, and attain the anticipated targets. First, we should further enhance our understanding, unify our thinking, raise awareness in carrying out this work, regard this work as something that helps achieve a breakthrough in our efforts to correct the unhealthy trends in some trades and maintain administrative honesty, and carry out the next step of the work in a down-to-earth manner. Second, we should proceed from reality to review our previous work, and make more

efforts to improve the weak links. Governments at all levels should strengthen supervision and inspection. In particular, they should supervise and inspect the work of the localities and (?departments) where this work proceeds slowly, and about which the masses still have many complaints. Third, we should particularly pay close attention to and successfully carry out the work in counties, cities, and rural areas. Fourth, all departments should hold their own responsibilities, work in close coordination, and fulfill their tasks." Cadres in charge of the work should conduct a study of the deep-seated problems, do a good job in investigations and study, and put forward the methods for improving the work comprehensively. Fifth, we should continue to strengthen leadership over the work.

NORTHWEST REGION

Gansu Establishes Tibetology Society

OW2705084591 Beijing XINHUA in English 0725 GMT 27 May 91

[Text] Lanzhou, May 27 (XINHUA)—The Gansu provincial Tibetology Society was recently founded in Lanzhou, capital of northwest China's Gansu Province.

The society will research the language, literature, art, history, geography, astronomy, religion, philosophy, medicine, education and folk customs and habits of the Tibetan people.

Gansu is a province with Tibetans living in compact communities. The Lapuleng Monastery in the province's Tibetan Autonomous Prefecture of Gannan is one of the six leading lamaseries that belong to the Yellow sect of Lamaism in China. The monastery is home to 120,000 Buddhist scriptures and status. [as received]

The province is also a center for the research of Tibetology and boasts a strong contingent of research fellows in this field.

Biodata on Key Members of Straits Exchange Foundation

91CM0415A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 214, 21 Apr 91 pp 71-73

[Article by Ts'ao I-hui (2580 0110 2585): "Lineup of Important Members of Straits Exchange Foundation"]

[Excerpts] [passage omitted] On 20 November of last year the Mainland Committee was checking and ratifying the establishment of the Straits Exchange Foundation, but the regulations for the organization of the Mainland Committee itself had not yet been passed by the Legislative Yuan. Ch'en Ch'ang-wen [7115 7022 2429] could only do the preparatory work in private. In less than two months' time, 14 key members, including four Ph.D.'s and six M.A.'s were found. From a look at their record of formal education, one can see that this is a really good lineup.

Before these people came to the Straits Exchange Foundation they had been in fairly good work posts and social positions. Their main reason for coming to work in the Straits Exchange Foundation was that for the most part they thought this work would be historical and that their names would resonate in history with considerable significance. On the other hand, there was the challenge of the work itself, because the mainland side has always been unfathomable. These middle-aged people, "neither old nor young," had retained the enterprising spirit of some young people and they wanted to tackle the mainland—this unpredictable object of their work. [passage omitted]

Although these people cherished similar ideals in coming to the Straits Exchange Foundation, the processes through which they joined it were not all that similar. Some of them were old acquaintances of Ch'en Ch'ang-wen's. For example, Deputy Secretary General Ch'en Jung-chieh [7115 2837 0267] was a fellow university student of Ch'en Ch'ang-wen's. Hsu Hui-yu [6079 1920 4368], director of the Legal Services Department, was a pupil of Ch'en Ch'ang-wen's; Ouyang Sheng-en [2962 7122 5110 1869], secretary general of the Secretariat, was a special assistant to Wu Tung-liang [0702 2639 0081], general manager of Hsinkuang Textiles, and he once audited a course given by Ch'en Ch'ang-wen and so is also considered a pupil of Ch'en's; and Hsu Chien [1776 1696], deputy secretary general of the Secretariat, was the secretary-director of the Office of the General Staff Department when Hao Pai-ts'un [6787 2672 2625], president of the Executive Yuan, was chief of staff, and as early as when Ch'en Ch'ang-wen worked in the

Ministry of National Defense the two men knew each other. Chang Ch'uan-sheng [1728 0356 5116], director of the Comprehensive Services Department, and Ch'en Ch'ang-wen have met several times; and Tsung Lin [1350 7792, director of the Economic Relations and Trade Services Department, has known Ch'en Ch'ang-wen for a long time, and they even attended the same senior middle school.

In another category are people who came to work in the Straits Exchange Foundation on the recommendations of other people. For example, Chu Jung-chih [4281 2837 1807], deputy director of the Cultural Services Department, was jointly recommended by Liang Shang-yung [4731 1424 0516], president of the National Taiwan Normal University, and Kuo Wei-fan [6753 3634 5672], chief member of the Cultural Construction Committee. Ts'ai Chin-mei [5591 6855 6593], deputy director of the Travel Services Department, was recommended by Hsu Li-nung [6079 2980 6593], chief member of the Retirement Aid Society. Ts'ai Ming-hua [5591 2494 5478], deputy director of the Legal Services Department, was recommended by Director Hsu Hui-yu. Ch'en Ch'ang-wen has said that after he selects a director he hopes that this director will find the deputy director, and in this way the deputy director will be fairly suited to the work when it begins.

Another kind of person who has joined the Straits Exchange Foundation is the type who recommends himself. P'u Shu-hua [5543 0647 5478], deputy director of the Comprehensive Services Department, is an example of this type. When he learned that the Straits Exchange Foundation was being set up, he got the idea of making a telephone call to Ch'en Ch'ang-wen, which he did. After their conversation Ch'en was very satisfied and invited him to have face-to-face talks. P'u Shu-hua then went to work for the Straits Exchange Foundation.

Another category of people were those whom Ch'en Ch'ang-wen himself vigorously tried to get. For example, Chou I-heng [6650 6654 5899], director of the Cultural Services Department, formerly taught in the Enterprise Management Department of Chungyuan University. He said that his greatest interest was teaching and research. After Ch'en Ch'ang-wen got to know this man, it took a lot of explaining and urging to convince Chou I-heng to agree to transfer temporarily to the Straits Exchange Foundation. Then there is a Navy captain, Chao Kan-ch'eng [6392 3227 2052], who is now deputy director of the Minister's Office in the Ministry of National Defense, was recently persuaded by Ch'en Ch'ang-wen to retire from active military service and become the secretary general of the Secretariat in the Straits Exchange Foundation. [passage omitted]

Table: Formal Education of Key Members of Straits Exchange Foundation

Unit	Title	Name	Age	Formal Education	Important Experience	Remarks
	Deputy Secretary General	Ch'en Jung-chieh	48	Southern Methodist University, U.S., Ph.D. Law	Counselor, ROC Embassy in South Africa	Ch'en Ch'ang-wen's schoolmate
	Deputy Secretary General	Shih Ch'i-p'ing [4258 7871 1627]	45	Economics Institute, National Taiwan University, M. A.	Adviser to the Economic Construction Society, Chief Commentator of KUNG SHANG SHIH PAO	
Cultural Services Department	Director	Chou I-heng	42	Enterprise Institute, National Political University	Professor, Concurrently Chief of the Research and Development Office, Chungyuan University	
Cultural Services Department	Deputy Director	Chu Jung-chih	42	Ph.D. National Literature	Associate Professor Concurrently Director of the Teaching and Guidance Sub-department, National Taiwan Normal University	
Economic Relations and Trade Services Department	Acting Director	Chang Tsung-lin	47	M.A., Economics Institute, National Taiwan University	Deputy General Secretary, Import-Export Commercial Trade Council, Taipei City	
Economic Relations and Trade Services Department	Deputy Director	P'an Hsien-jung [3382 2009 2837]	48	M.A., Economics Institute, Meiji University, Japan	section chief, Investment Office, Economic Construction Society	
Legal Services Department	Director	Hsu Hui-yu	39	Ph.D. Law, National Political University; advanced studies, University of Munich, Germany	Judge, Taipei District Court	Ch'en Ch'ang-wen's pupil
Legal Services Department	deputy director	Ts'ai Ming-hua	43	Law Department, National Taiwan University	Judicial attorney	
Travel Services Department	director	Ouyang Sheng-en	42	M.A., Cultural and Political Institute	Special assistant to the general manager of Hsinking Textiles	
Travel Services Department	Deputy Director	Ts'ai Chin-mei	45	Graduate, Political Science and War School	Colonel, chairman of the Taipei Conscription and Mobilization Administration; colonel, deputy chief of Police Headquarters	Retired from active duty
Comprehensive Services Department	Director	Chang Ch'uan-sheng	46	M.A. Journalism, University of Missouri, U.S.	Director, Central Broadcasting News Department; teacher in Hong Kong's Chinese University and the National Political University	
Comprehensive Services Department	Deputy Director	P'u Shu-hua	40	Department of Library Services, Fugen Catholic University	director, Mainland Institute, LIEN HE PAO	
Secretariat	Secretary General	Chao Kan-ch'eng	54	Graduate, Naval Academy	Rear Admiral, Ret., and Deputy Director, Office of the Ministry of National Defense	
Secretariat	Deputy Secretary General	Hsu Chien	47	Graduate, Judge Advocates School	Judge advocate; Colonel and secretary-director of the Office of Chief of Staff	

Ideological Origin of Independence Disputed

91CM0451A Taipei TZULI WANPAO in Chinese
17 May 91 p 4

[Article by Chen Yung-chang (7115 3057 2490), assistant professor in the Department of International Trade, Taiwan University: "Taiwan Independence Ideology is Natural and Normal"]

[Text] At his press conference in the evening of 30 April, Lee Teng-hui, chairman of the Chinese Kuomintang Party [KMT] of the Chinese People, said that the idea of Taiwan's independence is not something that has originated inside Taiwan, but had come about because Communist China isolated Taiwan in the international community. The KMT has indeed always suppressed the Taiwan independence idea and threatened the people on Taiwan that "Taiwan independence may invite an invasion of Taiwan by Communist China." Let us now thoroughly scrutinize the explanation that the KMT leader had given for the inception of the Taiwan independence ideology.

At the time of World War II, there were merely 50 or 60 states in the world, but only half a century later there were 170 or 180 states, i.e. on the average two or three new states were born every year. In other words, there were every year on the average two or three territories in various parts of the world where its people "founded independent states." Recently, the people of Lithuania on the Baltic and of Slovenia in Yugoslavia have wanted independence. These examples show that the idea of "founding independent states" is widespread in the world and not only limited to Taiwan.

What brings about such ideas as in the "movement for independent statehood," "movement for national independence," "movement for national liberation," or "nationalism"? Fundamentally, all these movements come about following the birth of "nations." An explanation of independence movements must therefore start with the creation of nations, and a discussion of the creation of nations must start with a discussion of man's perception of his environment.

Man gains perception of his environment by means of his five organs of sense and the information processing of his brain. A man's perception of the external world will hardly exceed the limits of his environment. If a person lives for a long time in a certain social environment, he will naturally gain a certain perception of his environment. People who live under different social environments gain different perceptions from their environments. These different perceptions originate from different existences under different environments, or what may be called different political, economic, cultural, and geographical factors. People of a certain territory, who have had a lengthy historical development in a particular environment, and who have had ample mutual interchanges while gaining mutual understanding, will, to a certain extent, arrive at common perceptions and form a nation. People within a nation

will be very much of the same character, while people of different nations will be much different in their characters. Being split by living in different environments, mankind as a whole has formed different nations. People of different nations will of course act differently as far as consumption is concerned, and that is also a reason why there are different separate markets within the global market.

In antiquity, the units of political organization of man were tribes or feudal states. In the present international political arena, the state is the political unit. As soon as the population of one territory has become a nation, they will of course demand to appear as a state on the international political stage. In other words, a nation will naturally demand to be independent and will want to establish a state of its own. It is similar to the child that, after it will have grown up, will want to exist in society as an independent personality.

Taking the independence and formation of statehood of the United States as an example: The English Puritans who emigrated to North America 300 or 400 years ago, braved the great dangers of crossing the Atlantic, to avoid religious persecution. After a period of 100 or 200 years, the immigrants in North America, having had ample mutual interchanges and having gained good mutual understanding, formed a new nation. Although this new nation was similar to the West European English, as far as the color of their skin, their ethnic derivation, and language were concerned, they had, in their North American environment, a conception of things that was different from the English. This new "American nation" demanded independence and a state of its own, and through much effort and after overthrowing British rule, they built up one of the powerful states of the world.

Turning now to developments on Taiwan, there are similarities with America. The forefathers of most of us also escaped 300 or 400 years from poverty and disasters, and crossed over what at that time was a dangerous Taiwan Strait and the Yellow Sea, to get to this new land. Some of these immigrants spoke Hakka and some spoke South Fukienese, and together with the original inhabitants, they composed the early Taiwanese society. In early Taiwan, there were frequent armed clashes between the tribes that inhabited the various regions, but after several centuries of mutual interchanges and their gaining good mutual understanding, the people on Taiwan Island gradually fused into a new nation, this, then, is the "Taiwanese nation." After having formed a new nation, the people of that nation will naturally demand their nation's independence and statehood, and Taiwan was no exception. As early as 1928—Taiwan was still under Japanese rule—Hsieh Hsueh-hung (6200 7185 4767) and others proposed independence for the Taiwanese nation. This shows that the proposal for Taiwan independence was generated within Taiwan. It is even more striking in the case of the "Republic of Taiwan," created in 1985, with its national flag, a yellow tiger on blue background.

We are quite accustomed to hear the terms "Chinese nation," "Japanese nation," and "Korean nation," but are quite unfamiliar with the term "Taiwanese nation." From childhood on, the Chinese KMT has spoken to us in such phrases as "The civilization of the Chinese nation is 5000 years old," "The Chinese nation comprises Han, Manchu, Mongol, Hui, Tibetan, Miao, and other peoples," "We are all Chinese," etc. However, is it really like that? Opening the textbook that the Chinese KMT has compiled "as by imperial order," we see that Sun Yat-sen, a Chinese, in the course of pursuing the revolution to topple the Manchu dynasty, at first, in 1895, created the Hsing Chung Hui [Society for the Development of China], whose members had to swear to work to "Oust the fiendish Tartars, restore China, and establish a republican government." The term "fiendish Tartars" refers to the Manchu, and the term "China" refers to the Chinese. Thus, in 1895 Sun Yat-sen proudly refers to himself as a Chinese and does not consider the Manchu as belonging into "China." The Manchu are an alien nation to the Chinese, and the Chinese nation does not at all include the Manchu. The declaration of purpose of the Chinese Tung Meng Hui [Chinese Covenant Society], organized in 1905, read: "Oust the fiendish Tartars, restore China, establish a republic, and distribute the land equally." Thus, Sun Yat-sen did not change his mind from 1895 to 1905 about "driving the Manchu out of China."

It was only after the 1912 demise of the Manchu regime that Sun Yat-sen proposed a "five-nation union." Sun Yat-sen put forward this proposal from the standpoint of rule by the Chinese, who were to rule over the other ethnic groups. A "Chinese nation" with the so-called fusion of five ethnic groups actually came about only as late as 1912. It is not yet 100 years since then. How, therefore, can one speak of a 5000-year history?

The United States has by now absorbed quite a number of new Asian and Latin American immigrants. After 1949, the Chinese KMT, after being toppled by the Chinese communists on the mainland, led or compelled several million people to flee to Taiwan. Many of these new immigrants, as far as they belonged to the middle and lower strata, immersed themselves into the Taiwan environment, and after a historical process of 40 or 50 years, gradually became fully merged into the Taiwanese nation. One example is Cheng Nan-rong [6774 0589 2827], martyr of the founding of Taiwan statehood, and, as to his status, a so-called "child of people from another province." There have also been many other "people from another province," who mostly came back to Taiwan after their visits to relatives on the mainland, because they felt themselves to be alien to Mainland China environment. They discovered that after having lived 10 or 20 years in their first native place, that their true native place is now Taiwan, where they have lived 40 or 50 years. Though admiring the large rivers, the Changjiang and the Huanghe, they feel more closely attached and more familiar with the Tanshui River!

Is there a possibility that the Chinese KMT ruling class, wielding the banner of being "Chinese" as they rule over the "Taiwanese," can turn into component parts of the Taiwanese nation? No person can possibly escape the influence of the environment in which he exists. Those Chinese rulers of Taiwan are of course also affected by the Taiwan environment. It is only that for the purpose of rationalizing the legitimacy of their Chinese rule, in order to preserve their privileges, that they will not fully identify with the Taiwanese nation, just as the Manchu rulers, to their very end, would not identify with the Chinese, and only waited until they were overthrown by the Chinese that they merged with the Chinese.

The Chinese KMT, keeping to a Chinese standpoint in order to rationalize the legitimacy of their Chinese rule, are therefore doing their utmost to propagandize the concept that "we are all Chinese," with the intention of eradicating the Taiwan nationhood ideology, of destroying the basis for Taiwan independence, to the benefit of Chinese rule, even not shrinking from allying themselves with the Chinese Communist Party, and frightening the Taiwanese with the threat that "Taiwan independence may invite an invasion of Taiwan by Communist China." After all, the ruling class of the Chinese KMT and the Chinese Communist Party are indeed Chinese. They collaborate from within with forces from without, and although separated by the sea, they play the same tune, and both sides profess that there is but one China, regardless of whether this China is merely an illusion, in view of the present international political situation, or whether it actually exists! They act in common to suppress the Taiwanese and the independence and statehood of the Taiwanese nation!

A national independence movement is a movement in which the population of a certain territory, after having achieved nationhood in a natural process of development, demand political independence; it is natural and normal. The movement of the Taiwanese people for national independence is a natural action taken by the Taiwanese people, after having achieved a Taiwanese nationhood during the past 300 or 400 years, when on Taiwan several ethnic groups have merged into one nation. The Taiwanese nation is not the same as the Chinese nation: Taiwanese are not Chinese, just as Americans are not Englishmen. The Chinese KMT, keeping to the Chinese standpoint to preserve their Chinese regime and the privileges of rulers, exercises a colonial rule. They naturally eradicate Taiwanese culture and language, and attack the Taiwanese independence movement, they vilify the Taiwan independence ideology, distract many a Taiwanese of Taiwanese nationality from their natural action, and make them forget their natural rights. However, we shall still be reminding that Taiwanese: "The idea of independence for Taiwan is natural and normal." Only those Taiwanese are abnormal who do not believe in independence for Taiwan. They will be that way only because of the protracted vilification of the Taiwan independence ideology, the suppression, and the threats by the Chinese

KMT. We shall therefore end here by saying that the idea of independence for Taiwan has been generated naturally within the Taiwan environment. The idea expressed by the leader of the Chinese KMT is wrong! He does not understand how the drive for Taiwan independence has come about.

New Cabinet Members Discuss Policies

*OW3005092791 Taipei CNA in English 0754 GMT
30 May 91*

[Text] Taipei, May 30 (CNA)—Newly appointed Communications Minister Chien You-hsin listed "four major goals" and Environmental Protection Administration Chief Chao Shao-kang threatened to quit if he must compromise "green principles."

Chao, a top vote winner in Legislative Yuan elections, also made an "oral report" on his personal assets during his first meeting with the press after the ruling Kuomintang endorsed the new cabinet lineup.

Chien said his four top goals are to promote the Six-Year National Development Plan, improve traffic management, cultivate private-run communications business, and upgrade the quality of life.

Noting that Communications Ministry construction projects account for 30 percent of the 8.2-trillion-NT [new Taiwan] dollar Six-Year Development Plan budget, Chien vowed aggressive efforts to build Taiwan into a west Pacific transshipment center.

He will also lead efforts to build a high-speed train system, a second highway in northern Taiwan, a coastal road in western Taiwan, and 12 east-west cross-island roads.

To improve traffic management, Chien said he will, upon assuming the post June 1, "oversee an across-the-board revision of outdated laws and regulations governing communications."

The scientist-turned official said he will encourage private businessmen to participate in communications construction projects that are a part of the six-year plan. Their participation will help solve fund shortages in this area, Chien added.

Chao Shao-kang, who "disappeared" for three days before finally accepting his new job, said the environmental assessment of the construction of the controversial fourth nuclear power plant must be "strict."

He added that if environmental protection principles must be compromised, "I will never hang on to my job."

Chao said his new job will not affect his plans to run for Taipei mayor, and he will continue to serve his electorate since his term as a lawmaker will not expire until one and a half years from now.

In an unprecedented move, Chao made public his personal assets—two houses, a tract of land (300-ping in size), and bank deposits of some 6 million NT dlr.

Wu Po-hsiung, who also broke new ground by accepting a post he had already held, brushed aside a press question whether he still wanted to run for Taiwan governor once the post becomes an elected office.

"What is important for me is to do my present work well," he said.

"I do not feel any pleasure. I just feel a sense of mission, as well as a will to combat," Wu said when asked how he felt about his "new" job.

Chien, Chao, Wu and the other new cabinet members will meet the press on June 1 to further explain their ideas about their jobs. Premier Hao Po-tsun will also use the first anniversary of his premiership to talk about his future plans.

Investment Increases in Shenyang

*OW1006115991 Beijing XINHUA in English
0606 GMT 10 Jun 91*

[Text] Beijing, June 10 (XINHUA)—Taiwan investment in Shenyang, capital of northeast China's Liaoning Province, has been increasing in recent years.

Since 1989, more than 2,000 businessmen and industrialists from Taiwan have visited Shenyang and have invested 28 million U.S. dollars to fund 18 enterprises. These enterprises cover electronics, rubber, plastic, aluminium-ware, shoe-making, machine-building and light industries. In all, 14 of the enterprises have gone into production, today's OVERSEAS EDITION of the PEOPLE'S DAILY reported.

The city government has worked out a series of preferential policies for Taiwan investment and also set up a 10 sq km development zone to attract more Taiwan funds.

Efforts have also been made to improve the investment environment by enhancing telecommunications and other public facilities.

The city has already received more than 1,200 Taiwan businessmen this year as compared with only 400 for the whole of 1988.

Indirect Trade Increases 39 Percent Jan-Apr

*OW1306140691 Beijing XINHUA in English
1331 GMT 13 Jun 91*

[Text] Hong Kong, June 13 (XINHUA)—The value of indirect trade between the two sides of the Taiwan Straits hit 12.15 billion Hong Kong dollars (about 1.55 billion U.S. dollars) in the first four months this year, an increase of 39 percent over the same period last year.

Of this, Taiwan's indirect exports to the mainland came to 9.47 billion Hong Kong dollars-worth, an increase of 38.9 percent over the corresponding period last year; while the volume of mainland commodities exported to Taiwan via Hong Kong, was 2.4 billion Hong Kong dollars-worth, an increase of 39.5 percent over the same period last year.

Taiwan economists said that the increase in the island's indirect trade to the mainland results from, on the one hand, the favorable turn in the mainland's economy, which has enhanced purchasing power of consumer goods; and on the other, the growing number of factories invested in by Taiwan businessmen which need textile, plastic and rubber materials, as well as machinery products from Taiwan.

Japanese Banks Becoming More Important in Local Economy

91CE0487A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 11,
18 Mar 91 pp 17-19

[Article by Sun Hai-shun (1327 3189 7311): "Japanese Banks' Position Becomes Daily More Important in Hong Kong; Rapidly Developing, Leading in Number of Foreign Investment Banks, With Wholesale Business at the Center, They Are Developing Momentum in Hong Kong Which Will Continue For a Number of Years"]

[Text] Since the last decade, Japanese investment banks have developed rapidly in Hong Kong, and their position is growing more important daily in Hong Kong financial circles.

Japanese Investment Banks in Hong Kong Set the Fastest Developmental Pace

In 1953, the Bank of Tokyo established a Hong Kong branch, the first Japanese investment bank in the colony. It was joined not long afterwards by the Sumitomo and Sanwa Banks which in succession opened for business here in the 1960's. These were followed by the Fuji Bank and the Industrial Bank of Japan, which set up Hong Kong branches in the 1970's. After the 1980's had begun, along with the growing trend of Japanese overseas investment and economic internationalization, and the ascending position of Hong Kong in international finance, Japanese investment banks intensified their march into Hong Kong markets, added to their branch structure, and expanded the development of their multinational financial business. According to statistics from the Hong Kong government's Banking Regulatory Agency, by the end of June 1990 there were 36 Japanese investment banks operating in Hong Kong, and those banks that had set up operations here prior to that time had a total of 96 subbranches. There are 8 licensed Japanese investment banks (formerly termed licensed acceptance savings corporations) and 29 Japanese investment registered acceptance savings corporations. In addition, Japanese banks have 25 Hong Kong offices (Note 1). Of the 135 licensed foreign banks in Hong Kong, the largest number are Japanese investment banks.

Basic Situation and Characteristics of Operation

1. Business Abroad Is the Focus, Business in Hong Kong Is Supplementary.

Reports from the Hong Kong government's banking agency and data furnished by several well-known Japanese banks (such as the Bank of Tokyo and the Sanwa Bank) show that overseas business is the principal operations focus of Hong Kong's Japanese investment banks. These banks' overseas lending business is so extensive that even though it is based here, raising and circulating the funds takes place in countries and areas outside of Hong Kong.

Looking at the makeup of funding sources, in addition to their own funds (only 5 to 10 percent of the total), these Japanese banks derive the bulk of their remaining funding by either borrowing from other banks or drawing upon the deposits of nonbank customers. Their loans from other banks (which could also be referred to as drawing upon other banks' deposits) constitute about 90 percent—by far the leading position. About 95 percent of the loans from other banks are in foreign currency. In 1989 the loans between banks in foreign currency reached HK\$2.056 trillion (with foreign currency calculated in HK currency), 78 percent of the total volume of foreign currency lending by these banks. These loans taken out by Japanese investment banks are for the most part from multinational banks; that is, the Japanese investment banks in Hong Kong work through branches they have established in London, Frankfurt, New York and Singapore which convert the loans into foreign funds on their local financial markets. The lion's share of these funds are European and U.S. dollars, which are then supplied to the Asian-Pacific region for use. Hong Kong dollars make up the smallest portion of the Japanese banks' funds (7 percent in 1989), the supply falling far short of the demand. It has even reached the point where Japanese investment banks often convert their loans in the Hong Kong and Shanghai Banking Corporation (HSBC) and Chinese banks in the Hong Kong financial market, in order to satisfy what they need for expanding their local loan business. To sum up, the funds which Japanese investment banks use to expand their loan business are mostly U.S. funds raised by borrowing U.S. funds in European markets through multinational banks.

As to how the funds are put to use (entered in banking accounts as "assets" or "credits"), just as with the "foreignness" of the fund sources, so are the Japanese banks' applications of their funds largely in areas outside of Hong Kong, chiefly in the Asian-Pacific region. Japan is the largest customer, followed by Southeast Asia, China, Taiwan and South Korea. These applications are principally in two sectors: the first is to overseas banks (usually comprehensive banks in Japan) to extend similar loans. Actually, these funds go to assist their own country's comprehensive banks in amassing huge sums of foreign currency in overseas money markets, while also increasing the proportion of lending these banks do to banks here in Hong Kong. In 1989, Japanese investment banks in Hong Kong extended HK\$1.527 trillion worth of foreign currency to other banks, 68.3 percent of their total foreign capital, and 65.3 percent of all foreign currency lending done by Hong Kong banks in that year. The second application is in making loans to customers other than banks; the Japanese banks' largest customer in this regard is Japanese industry. In 1989, 57 percent of the loans made to nonbank, overseas customers were to Japanese industry. These loans were mostly assumed by Japanese investment banks in Hong Kong. Japan's other principal customers were in Southeast Asia, China, Taiwan and South Korea. In recent years, between 10 and 15 percent of Japanese banks' regional investment

has been with China (12 percent in 1988); this includes loans, syndicate loans, financial consulting services to enterprises, and services in the bond and negotiable instrument markets. Loans to China are principally in the form of project loans, export industrial loans, and import substitute loans.

Every one of the Japanese investment banks in Hong Kong does the bulk of its business outside of the colony, with the proportion varying greatly from bank to bank. The lowest is around 60 percent, the highest more than 90 percent, and the average approximately 70 percent. The banks do less of their business here, but this facet of their business has also been developing rapidly in recent years.

The amount loaned almost tripled in volume from 43 billion yuan in 1987 to 1.195 trillion yuan in 1989 (Note: this figure was calculated on a basis of the Japanese investment banks' 19 billion yuan deposits in 1989 and the 629 percent ratio of HK dollar loans and deposits). During the same period, loans in HK dollars made by Hong Kong banking organizations increased by only 40 percent. Japanese investment banks' share of the loans made by Hong Kong financial organizations in HK dollars climbed from 13.4 percent in 1987 to 22.8 percent in 1989, surpassing for the first time that of Chinese investment banks (83.5 billion yuan, a 16 percent share), far more than that of European and American investment banks, and second only to the venerable HSBC.

But the Japanese investment banks still lag behind the HSBC, and the Chinese and American investment banks when it comes to attracting deposits in HK currency. In 1989, the Japanese banks took in HK\$19 billion in deposits. This was only 4 percent of the HK currency deposited in the Hong Kong banking market, and much lower than its share of the HK currency loan market (22.8 percent). The Japanese banks' share of loans in HK dollars rose last year by 629 percent, compared to an average of 126 percent for the entire Hong Kong banking community, and just 87 percent for Chinese banks. This excessively high share for Japanese banks made it clear that in opening up the HK currency lending market the Japanese were far ahead of their opening up the HK currency deposit market, to a point where the supply of HK dollars became insufficient. In order to meet the needs of their growing business in HK currency lending, the Japanese banks have had no recourse but to borrow from such other banks as the HSBC, the Bank of China, etc. In the last few years, Japanese banks have been by far the greatest requestor of loans in HK currency from other banks in the colony. In 1989, the Japanese banks borrowed HK\$110 trillion from other banks, greater than the inter-bank borrowing of Hong Kong's European and American banks combined (HK\$930.9 trillion), and one-third of the total volume of inter-bank borrowing of HK currency for the entire Hong Kong banking system. The inadequate development of their Hong Kong deposit market is an important reason for the Japanese

investment banks' imbalance in their share of the deposits and their excessive reliance on borrowing from other banks.

2. With a Concentration on Wholesale Business, Retail Business Has Also Developed Inadequately.

No matter if the business is within or outside the colony, Japanese investment banks all stress their wholesale business, with a small share of retail business. In their business outside of the colony, their most important undertaking is to obtain large loans from European, American and Singapore banks in the Hong Kong banking system, which ultimately goes to international banks in Tokyo and other areas. In the large-scale shifting of funds among international banking centers in Europe, the United States and the Far East, Hong Kong's Japanese investment banks stand out in the role of intermediaries. Other facets of Japanese investment banks' wholesale business outside the colony are the provision of mixed loans to some large enterprises or developmental projects in Japan, Southeast Asia, China, South Korea and Taiwan, and in organizing bank consortia for the purpose of lending.

In their business within Hong Kong, there is a similar emphasis on wholesale. Their business concerns for the most part are Japanese investment enterprises and a small number of large corporations in the colony. One aspect of this is to attract large deposits from these enterprises; another is to extend large loans to them. These loans are chiefly mixed loans for purchasing real estate, for capital construction, foreign trade, etc. For several years, Japanese enterprises in Hong Kong have been developing rapidly, and have been inseparable from the financial business of Japanese investment banks. The Japanese banks have been somewhat behind in developing their Hong Kong retail business, not only supplying but a very few small loans to a scattered number of customers (such as household and family loans), but also accepting very few loans from society. In all of the major banking associations, Japanese investment banks have a very small share of this market.

Japanese investment banks' retail business shows a similar lack of development, chiefly due to: first, Japanese investment banks' relatively late entry into the Hong Kong financial market. Of the 31 Japanese investment banks in Hong Kong by the end of last June [1990], 26 were established after the 1980's, with some instantly upgrading from offices to banks, and relatively few branches and subbranches. The 31 Japanese investment banks in the colony have a total of only 96 branches and subbranches, far fewer than the HSBC's 255, the Chinese Banking Association's 318, the Hang Seng Bank's 119 and the Hsuan Ta Bank's 117. There is fierce competition for retail business among the colony's banks, and those Japanese investment banks which set up branches here not long ago are finding it difficult to compete. Second, retail business is more costly and less profitable for banks than wholesale business is, while savings deposit business is erratic and unstable. In addition to

this there has been a lack of aggressiveness on the part of Japanese bank management here in pursuing Hong Kong retail business and little publicity given to their expanding business activities. This is why their retail business in the colony has been inadequately developed.

But Japanese investment banks have made considerable effort to develop their Hong Kong retail business in the last few years. This has chiefly taken the form of expanding their retail business in the colony through buying shares in local banks and issuing savings certificates at fixed interest (or floating interest). Following the Fuji Bank's purchase of a 55 percent share of the Kwong An Bank, and the Mitsubishi Bank's purchase of 25 percent of the Liu Chong Hing Bank in the 1970's, the 1980's saw the purchase of 95 percent of the Chekiang First Bank by the Dai-Ichi Kangyo Bank, and the Mitsui Trust and Banking Corporation's purchase of 22 percent of the Dao Heng Bank.

Japanese investment banks have also been very active in raising funds through the issuance of savings certificates, issuing HK\$3.8 billion worth of fixed interest certificates in 1988, and HK\$1.7 billion worth in the first 11 months of 1989, which was 70 percent of the total of all such savings certificates issued by all Hong Kong banks for the same period (Note 2). For the first quarter of 1990, of the HK\$1.038 billion in savings certificates issued by banks here, the bulk of these were still being issued by the Japanese investment banks. The Sanwa Bank, Sumitomo Bank, Mitsubishi Bank, Mitsui Trust and Banking Corporation and the Taiyo Kobe Bank have all been issuing various kinds of savings certificates right along. Because interest on fixed term savings certificates has been slightly lower than the interest on loans from Hong Kong banks, the proportion of funds amassed through issuing savings certificates is becoming a greater part of the total funding resources of the Japanese banks.

Japanese Investment Banks' Business Daily Grows More Important

Japanese investment banks are extremely influential overseas, surpassing in influence any other Hong Kong banking association. Due to the rapid development of their business activities (especially their offshore business), the Japanese banks' assets have expanded rapidly as well, climbing from HK\$934 trillion in 1986 (foreign assets are calculated here in HK currency) to HK\$2,384 trillion in 1989. This was an increase of 1.43-fold, and raised the Japanese banks' share of all bank assets in Hong Kong from 45.6 percent to 56.1 percent. Of their assets, 93 percent of the Japanese banks' assets were foreign, and only 7 percent were Hong Kong assets. The former figure represented 66 percent of the foreign assets of all Hong Kong banks (and the latter was only 17 percent of the Hong Kong-wide total). What this means is that the Japanese investment banks have over half of all regional banking business in Hong Kong, so in this area they are far more influential than the other banking associations.

In interbank borrowing among Hong Kong banks, the Japanese investment banks have the greatest need for foreign funds (of which the supply is less than the demand) and the single greatest demander of Hong Kong currency. In 1989 Japanese banks made 65 percent of all foreign fund deposits in the Hong Kong banking system, while 78 percent of all foreign funds borrowed among Hong Kong banks were borrowed by Japanese investment banks. The Japanese banks borrowed 34.5 percent of all Hong Kong funds involved in interbank lending transactions during that same period. Therefore, changes in the interbank supply and demand of currency by Japanese banks will have a major effect on the interest rates for interbank borrowing.

In their business within Hong Kong, the Japanese investment banks are second in position and influence to the HSBC and the Chinese Investment Banking Association. In 1989 the Japanese banks had only 4 percent of the deposit market for Hong Kong currency, lower than that of every major banking association. In lending Hong Kong currency, the Japanese banks passed the Chinese investment banks for the first time, but their possession rate of assets in Hong Kong currency was still behind that of the Chinese investment banks and the European banks, so the Japanese banks' influence was still somewhat limited in their business in Hong Kong assets, especially in their retail business.

Causes and Trends of the Japanese Banks' Rapid Development

There are various reasons for the Japanese investment banks' strong inroads into Hong Kong in recent years:

1. Since the 1980's, Japanese capital has accelerated its overseas expansion, and Japanese multinational corporations can be found in every part of the world. Hong Kong is an important base for Japanese capital's commercial development in the Asian-Pacific region, with this capital now invested in more than 1,300 Hong Kong enterprises. To keep up with the development of industrial and commercial enterprises in Hong Kong and the Asian-Pacific region, Japanese investment banks have aggressively entered the Hong Kong market, and developed their financial activities.
2. Domestic interest rates in Japan have climbed in recent years, cutting into the profits from deposits. This has decreased profits and increased operational problems for many banks, spurring many of them to seek overseas expansion in order to increase their profits. Hong Kong is one of the major financial centers in the Asian-Pacific region, occupying a central position in that region. Hong Kong not only has advanced telecommunications facilities, it has advantages over Tokyo in its taxation and fiscal management aspects. This has been an important element in the steady development of Japanese investment banks in Hong Kong.
3. The influence of international factors. Changes in the political and economic situation in East Europe have given Western European capital expanded space for their

activities and commercial opportunities. Western European capital and banks have already begun a shift to East Europe. This has affected European banks' Hong Kong business to a definite degree. According to sources in the banking community, there are some West German banks which have left, or are preparing to leave the colony in order to concentrate their strength for expansion in the Eastern European market. Of these, the Bank Fur Gemeinwirtschaft has already ceased business in Hong Kong at the end of September, and the Westdeutsche Landesbank is planning to conclude its foreign exchange business in Hong Kong. Besides this, the U.S. investment banks have been affected by the numerous problems of their domestic banking system and "business restructuring" plans, so are also cutting back on their Hong Kong business. For example, the Mei Hua [5019

5478] Bank has transferred its Asian-Pacific general office from Hong Kong to Singapore, and ceased foreign exchange operations at its Hong Kong branch; the Yun Tung [6663 6639] Bank has also announced it will cease its foreign exchange operations. In a situation where European and U.S. banks are postponing development of their Hong Kong business, Japanese investment banks have strengthened that development.

In addition to the factors related above, another reason for Japanese banks' vigorous advancement and expanded business in Hong Kong is the optimism of Japanese capital regarding the future development prospects of Hong Kong and China. Therefore, predictions are that within a certain number of years, the developmental momentum of Japanese banks in Hong Kong will continue, and their position in the Hong Kong financial community will become even more important.

Table 1: Status of Japanese Investment Banks in Hong Kong

Name	Number of Subbranches	Date Founded	Number of Subsidiary Savings Companies
Bank of Tokyo	7	October 1953	3
Sumitomo Bank	1	December 1962	1
Sanwa Bank	2	April 1964	2
The Fuji Bank	1	July 1979	1
The Mitsubishi Bank	1	September 1981	1
Daiwa Bank	1	September 1981	1
The Mitsui Bank	1	November 1982	1
The Taiyo Kobe Bank	1	December 1982	1
The Saitama Bank	1	December 1982	1
The Tokai Bank	1	April 1983	1
The Kyowa Bank	1	July 1984	1
The Hokkaido Takushoku Bank	1	August 1984	1
The Dai-ichi Kangyo Bank	1	December 1984	1
The Industrial Bank of Japan	1	June 1979	1
The Long-Term Credit Bank of Japan	1	October 1983	1
The Nippon Credit Bank	1	April 1986	1
Mitsubishi Trust and Banking Corp.	1	August 1983	1
The Toyo Trust and Banking Corp.	1	November 1984	1
The Yasuda Trust and Banking Corp.	1	June 1985	1
Sumitomo Trust and Banking Corp.	1	May 1986	1
The Chuo Trust and Banking Co.	1	April 1987	1
The Mitsui Trust and Banking Co.	1	May 1987	1
The Bank of Yokohama	1	July 1986	1
The Bank of Fukuoka	1	July 1987	1
Hokuriku Bank	1	May 1989	1
Ch'ien Yeh [Phonetic] Bank	1	1989	
Ta Heng [Phonetic] Public Bank	1	June 1989	
Juroka Bank	1	June 1989	
Nishi-Nippon Bank	1	March 1990	(Not allowed)
Chekiang First Bank	15	1986 (95 percent owned by the Dai-ichi Kangyo Bank)	
Kwong On Bank	28	1972 (55 percent owned by the Fuji Bank)	
Totals	31		96

Table 2: Percentage Share of Market Assets (Loans Held)

	1986	1987	1988	1989
China	8	7	8	8
Europe	17	15	14	13
Japan	46	55	56	56
U.S.	9	7	6	6
Others (including Hong Kong)	20	16	16	17

Table 3: Percentage Share of HK Currency Market

	1986	1987	1988	1989
China	19	19	21	19
Europe	19	20	18	18
Japan	9	11	14	17
U.S.	11	9	8	8
Others (including Hong Kong)	42	41	39	38

Table 4: Percentage of HK Currency Savings Market

	1986	1987	1988	1989
China	21	23	22	21
Europe	13	13	14	13
Japan	3	3	4	4
U.S.	7	7	6	6
Others (including Hong Kong)	56	54	54	55

Notes

Note 1: This figure is for yearend 1989.

Note 2: SING TAO JIH PAO 5 January 1990.

Plastics Joint Venture With USSR To Export to U.S.

HK2305042991 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English 23 May 91 p 1

[By Wong Joon San]

[Text] Hong Kong-based Russian Trade Development Corp (RTDC) has set up a joint venture project with a Soviet organisation to produce plastic products for sale in the United States.

RTDC managing director Graeme McLennan said primary processing would be carried out in the Soviet Union from 1 June, followed by secondary processing in Hong Kong.

"We have set up the joint venture so that we can obtain an export licence, enjoy tax privileges and lower costs for plastic raw materials," he said.

The Soviet Union produced an abundance of cheap raw materials such as polyethylene and polypropylene, making production costs cheaper than in Taiwan and South Korea, which had to import them.

The materials are used in a wide range of products, including telephones and computer keyboard covers.

Under the joint venture, the Western partners would provide a product design for the Soviet partner to produce, and would buy the manufactured goods at a contract price, Mr McLennan said.

The goods would then be shipped to Hong Kong for labelling before being exported to the U.S., he said.

Mr McLennan, who has just returned from the Soviet Union, said: "Although the political situation has quietened down a bit, there is so much uncertainty around."

However, trading had not been affected and was improving monthly, he said.

Despite the popular belief that the Soviet Union did not have hard currency, Mr McLennan said: "It is surprising how much money there is up there."

He said many trading, shipping and fishing companies, including cooperatives exporting timber, had hard currency to buy Western consumer goods in quantities of between U.S.\$100,000 and \$200,000.

"It is a matter of finding companies that can change their Russian roubles to hard currency," he added.

The corporation, set up early last year, has four other joint venture projects.

Growth of Re-Exports Cited

HK1006041491 Hong Kong HONGKONG STANDARD in English 10 Jun 91 p 1

[Text] Hong Kong's re-exports leapt 22 percent in volume during the first quarter of this year, confirming southern China's role as a growing outward processing centre for the territory.

While domestic exports grew a meagre 2 percent in volume terms during the period, imports rose 18 percent, figures from the Census and Statistics Department show.

In value, domestic exports and re-exports rose 2 percent and 3 percent respectively, while imports increased 4 percent.

The larger import growth, in value terms, shows the local economy remained buoyant, fuelled by strong domestic demand.

But economists agree the most outstanding growth during the period was in re-exports.

"Given the vast amount of land and labour resources in Guangdong that can still be used for outward processing, there is no foreseeable limit to its potential for further development," said K Y Tang, the Government's chief economist.

Another monetary official said southern China's growth, to a large extent, has engineered Hong Kong's economic growth in recent years. Increased production across the

border raises demand for domestic services in cargo transport, banking and finance, marketing and sales, he said.

"Southern China indirectly pushes up Hong Kong's growth rate," the official said.

Comparing the month of March this year with March last year, the volume of domestic exports dropped 11 percent but that of re-exports rose 7 percent.

Taking them together, the volume of total exports showed no change while that of imports grew 8 percent.

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